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April 21st 2007

On the cover
America's politicians are still running away from a debate about guns: leader

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Politics this week

Apr 19th 2007
From The Economist print edition

AP

In the biggest **mass shooting** in America's history, a student at Virginia Tech college in Blacksburg shot and killed 32 people on campus before turning the gun on himself. Cho Seung-hui, a South Korean national who emigrated to America as a child, was already in counselling and was causing concern to his teachers. College officials were criticised for not securing the campus immediately after the first two people were shot. In the more than two hours that were allowed to elapse before he resumed his killing spree, Cho took the time to post a macabre video manifesto to the NBC network in New York. See article

George Bush attended a convocation at the college and ordered flags to be flown at half-mast. A debate about **gun control** was begun by some, but even the Democrats backed away from calls to introduce legislation.

Paul Wolfowitz came under pressure to step down as head of the **World Bank** after it emerged he had secured favourable pay and work conditions for his girlfriend, a bank official. Mr Wolfowitz has spearheaded a controversial campaign against government corruption since taking charge of the bank. See article

The Supreme Court ruled, by five to four, that a ban on **partial-birth abortions** passed in 2003 by the then Republican Congress was constitutional. It is seen as a marked shift in the court's stance; for the first time it approved a restriction on abortion without regard for a woman's health. See article

The trial began of **José Padilla**, five years after he was arrested in connection with an alleged “dirty bomb” plot. Mr Padilla does not face any charges in relation to such a plot but is accused (with two co-defendants) of giving material support to terrorist groups. See article

New Jersey's governor remained in critical condition after a car crash. Jon Corzine was being driven to a conciliatory meeting he was to chair between the women's basketball team of Rutgers university and Don Imus, who was sacked from his popular radio show for making racist remarks about the players.

Confident Correa

Ecuador's president, Rafael Correa, won his controversial referendum to set up a “constituent assembly” to rewrite the constitution with 80% of the vote. Some fear he may now use this to concentrate power in his own hands. See article

In **Mexico** at least 20 people were killed in what police claimed was a feud between rival drug gangs. Meanwhile, in **Brazil,** battles between the police and competing drug gangs in Rio de Janeiro claimed the lives of 25 people.

The realm of possibilities

The campaign for the **French presidential election** drew to a close before polling day on April 22nd. The eventual result seemed uncertain, though the centre-right candidate, Nicolas Sarkozy, looked likely to come top in the first round. See article

AFP

Demonstrations in both Moscow and St Petersburg by Other Russia, an opposition group, were broken up violently by police, who arrested a former chess champion, Garry Kasparov, one of its leading lights. The crackdown confirms that **Russia's** government is in no mood to brook opposition, however

small. See article

Ukraine's constitutional court began to consider whether President Viktor Yushchenko's decree dissolving parliament was constitutional. One of the judges was accused of receiving a $12m bribe. Protesters blocked the court's entrance in an effort to stop it sitting.

Leaving the country

The interim administration in **Bangladesh** in effect sent two of the country's former prime ministers into exile. It was announced that Khaleda Zia, prime minister until October 2006, would go to Saudi Arabia. Her rival, Sheikh Hasina Wajed, was in America, and has said she will try to defy a government order barring her from returning to Bangladesh. See article

North Korea missed the deadline—of April 14th—by when it was supposed to shut down its main nuclear reactor at Yongbyon. North Korea complains it still has not received roughly $25m frozen in accounts in a bank in Macau it regards as a precondition to closing the reactor. See article

The election commission in **Nepal** confirmed what many had feared: that it will not be ready to hold an election for a constituent assembly on June 20th as scheduled. The date was set as part of a peace agreement between mainstream political parties and Maoist rebels.

The mayor of Japan's southern city of **Nagasaki** was shot dead by a member of a criminal gang while campaigning for re-election.

Tensions rose in **the Maldives** after the death of a man the main opposition party, the Maldivian Democratic Party (MDP), alleges was killed in police custody.

A committee appointed by the junta running **Thailand** agreed on a new constitution, to be made public later this month and eventually submitted to a referendum. The junta's critics complain it abolishes the elected Senate in favour of an appointed one. See article

A virulent strain

Muqtada al-Sadr, Iraq's fiery populist cleric, withdrew all six ministers loyal to him from Nuri al-Maliki's coalition government because the prime minister refused to set a deadline for withdrawing American troops. Mr Maliki looked increasingly weak as sectarian violence in **Baghdad** showed no signs of lessening: on April 18th car bombs killed nearly 200 people, the city's bloodiest day since the “surge” of troops began two months ago. See article

Sudan's government agreed to allow some 3,000 UN troops to be sent to buttress the 7,000 troops already deployed in the embattled Darfur region under the aegis of the African Union. President Bush said tougher sanctions should be imposed if Omar al-Bashir's government fails to co-operate fully. See article

The **Palestinian** president, Mahmoud Abbas, said he had agreed with militant groups to stop launching rockets against Israel; he and **Israel's** prime minister, Ehud Olmert, agreed to draw up lists of confidence-building measures in an effort to rekindle peace between the two sides.

The election of governors and legislators in **Nigeria's** 36 states was marred by massive vote-rigging, allowing the ruling People's Democratic Party to win nearly all the top posts. The opposition parties now threaten to boycott the presidential and federal elections due on April 21st. See article

AFP

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Business this week

Apr 19th 2007
From The Economist print edition

Google extended its sway over online advertising by agreeing to pay $3.1 billion for **DoubleClick**, the market leader in placing display advertisements on websites. The deal was criticised by some of Google's rivals, including Microsoft, on antitrust grounds. The internet company already dominates what is considered to be a separate market for paid-search advertising.

Meanwhile, Google advanced another step into more traditional media markets when it made a deal to place advertisements for its online customers on the network owned by **Clear Channel**. Separately, America's biggest radio-station operator accepted a sweetened $19.4 billion buy-out, though the offer is opposed by some shareholders. See article

The share price of **Yahoo!** dropped after its quarterly earnings disappointed investors, who had been expecting the company's new and much-trumpeted online advertising system to give it a boost. Instead, profit fell by 11% compared with a year ago.

Microsoft and **Adobe** both unveiled products that could encroach on each other's territory on the internet. Microsoft took the curtains off Silverlight, which rivals the Adobe Flash player used to power graphics and video on many websites, including YouTube. And Adobe introduced its media player, a potential competitor to Microsoft's tool for playing audio and film clips on personal computers.

Sweet for Sallie

A consortium of **private-equity funds and banks** said it would buy **Sallie Mae**, which provides loans to American students, for $25 billion. The deal comes amid intense regulatory scrutiny of the student-loan industry: Sallie Mae reached a settlement with New York last week over the state's investigation into ties between lenders and colleges. The consortium believes that increases in tuition fees and more students mean it will gain from the investment. See article

Barclays and **ABN AMRO** extended the deadline of their merger talks, which had been due to end on April 18th. The British bank is offering to buy its Dutch rival, but a group of three other banks is hovering with a rival bid.

America's banks began reporting their first-quarter earnings, with most producing results that analysts described as mediocre. However, **Citigroup** cheered investors when it announced higher revenues and profits that were better than expected. The share price of **JPMorgan Chase** also did well after it said net income had risen by 55%, compared with last year, to $4.8 billion.

All at sea

The **US Coast Guard** announced that it was taking over the management of its $24 billion “Deepwater” fleet-modernisation project. **Lockheed Martin** and **Northrop Grumman**, two defence contractors, have formed a partnership to carry out the works, but the programme has been beset by problems. Eight refitted 123-foot (37-metre) patrol boats were found to be structurally unsound and had to be decommissioned. See article

AT&T dropped its plan to buy part of a controlling stake in **Telecom Italia** from Pirelli, an Italian conglomerate. AT&T had wanted to acquire the investment in partnership with América Móvil, a Mexican mobile-phone operator, which said it was still interested after AT&T pulled out. Their joint effort had caused Italian politicians to fulminate against the loss of a “strategic” national asset. After AT&T's decision, the prime minister, Romano Prodi, reiterated his stance that TI should remain in Italian hands.

Vonage claimed that a dispute over three patents owned by Verizon could force it into bankruptcy. A court ruled recently that Vonage could not take new customers for its internet-phone service until the case

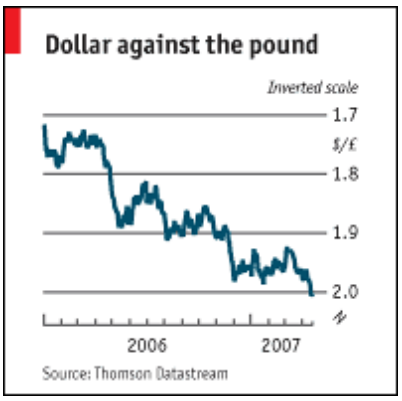
is resolved later this month. The chief executive of the company, which has seen its share price fall by 80% since its public offering last May, stepped down last week.

Australia's **Orica**, the world's largest explosives company, which began by supplying gold mines in the 19th century, rejected a A$10 billion ($8.3 billion) buy-out from a private-equity consortium.

China's economy grew by 11.1% in the year to the first quarter and its inflation rate rose to 3.3% in March. Both figures were higher than expected. China released the data after Asian markets closed amid speculation that the government might announce a plan to try and curb growth.

Sterling effort

The **pound** broke the $2 barrier for the first time in 15 years as markets calculated that a surprise surge in inflation in Britain would lead to an interest-rate rise. The **euro** also rose against the **dollar**, nearing a record high, after data from America showed that core inflation had eased. See article



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KAL's cartoon

Apr 19th 2007
From The Economist print edition

Kevin Kallaugher

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After the Virginia Tech massacre

America's tragedy

Apr 19th 2007
From The Economist print edition

Its politicians are still running away from a debate about guns

The Economist

Get article background

IN THE aftermath of the massacre at Virginia Tech university on April 16th, as the nation mourned a fresh springtime crop of young lives cut short by a psychopath's bullets, President George Bush and those vying for his job offered their prayers and condolences. They spoke eloquently of their shock and sadness and horror at the tragedy (see article). The Democratic speaker of the House of Representatives called for a "moment of silence". Only two candidates said anything about guns, and that was to support the right to have them.

Cho Seung-hui does not stand for America's students, any more than Dylan Klebold and Eric Harris did when they slaughtered 13 of their fellow high-school students at Columbine in 1999. Such disturbed people exist in every society. The difference, as everyone knows but no one in authority was saying this week, is that in America such individuals have easy access to weapons of terrible destructive power. Cho killed his victims with two guns, one of them a Glock 9mm semi-automatic pistol, a rapid-fire weapon that is available only to police in virtually every other country, but which can legally be bought over the counter in thousands of gun-shops in America. There are estimated to be some 240m guns in America, considerably more than there are adults, and around a third of them are handguns, easy to conceal and use. Had powerful guns not been available to him, the deranged Cho would have killed fewer people, and perhaps none at all.

But the tragedies of Virginia Tech—and Columbine, and Nickel Mines, Pennsylvania, where five girls were shot at an Amish school last year—are not the full measure of the curse of guns. More bleakly terrible is America's annual harvest of gun deaths that are not mass murders: some 14,000 routine killings committed in 2005 with guns, to which must be added 16,000 suicides by firearm and 650 fatal accidents (2004 figures). Many of these, especially the suicides, would have happened anyway: but guns make them much easier. Since the killing of John Kennedy in 1963, more Americans have died by American gunfire than perished on foreign battlefields in the whole of the 20th century. In 2005 more than 400 children were murdered with guns.

The trigger and the damage done

The news is not uniformly bad: gun crime fell steadily throughout the 1990s and early 2000s. But it is still at dreadful levels, and it rose sharply again in 2005. Police report that in many cities it rose even

faster in 2006. William Bratton, the police chief of Los Angeles (and formerly of New York), speaks of a “gathering storm of crime”. Politicians on both sides, he says, have been “captured” by the vocal National Rifle Association (NRA). The silence over Virginia Tech shows he has a point.

The Democrats have been the most disappointing, because until recently they had been the party of gun control. In 1994 President Bill Clinton approved a bill banning assault weapons (covering semi-automatic rifles plus high-capacity magazines for handguns) and the year before that a bill imposing a requirement for background checks. But Democrats believe they paid a high price for their courage: losing the House of Representatives in 1994 shortly after the assault-weapons ban, and then losing the presidency in 2000. Had Al Gore held Arkansas or West Virginia or his own Tennessee, all strongly pro-gun, he would have won the election. These days, with hopes for a victory in 2008 dependent on the South and the mountain West, it is a brave Democrat who will talk about gun control. Some of them dismiss the very idea as “insensitive”.

Mr Bush however, has done active damage. On his watch the assault-weapons ban was allowed to lapse in 2004. New laws make it much harder to trace illegal weapons and require the destruction after 24 hours of information gathered during checks of would-be gun-buyers. The administration has also reopened debate on the second amendment, which enshrines the right to bear arms. Last month an appeals court in Washington, DC, overturned the capital's prohibition on handguns, declaring that it violates the second amendment. The case will probably go to the newly conservative Supreme Court, which might end most state and local efforts at gun control.

Freedom yes, but which one?

No phrase is bandied around more in the gun debate than “freedom of the individual”. When it comes to most dangerous products—be they drugs, cigarettes or fast cars—this newspaper advocates a more liberal approach than the American government does. But when it comes to handguns, automatic weapons and other things specifically designed to kill people, we believe control is necessary, not least because the failure to deal with such violent devices often means that other freedoms must be curtailed. Instead of a debate about guns, America is now having a debate about campus security.

Americans are in fact queasier about guns than the national debate might suggest. Only a third of households now have guns, down from 54% in 1977. In poll after poll a clear majority has supported tightening controls. Very few Americans support a complete ban, even of handguns—there are too many out there already, and many people reasonably feel that they need to be able to protect themselves. But much could still be done without really infringing that right.

The assault-weapons ban should be renewed, with its egregious loopholes removed. No civilian needs an AK-47 for a legitimate purpose, but you can buy one online for $379.99. Guns could be made much safer, with the mandatory fitting of child-proof locks. A system of registration for guns and gun-owners, as exists in all other rich countries, threatens no one but the criminal. Cooling-off periods, a much more open flow of intelligence, tighter rules on the trading of guns and a wider blacklist of those ineligible to buy them would all help.

Many of these things are being done by cities or states, and have worked fairly well. But jurisdictions with tough rules are undermined by neighbours with weak ones. Only an effort at the federal level will work. Michael Bloomberg, the mayor of New York, has put together a coalition of no fewer than 180 mayors to fight for just that. Good luck to him.

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Turkey's presidency

Erdogan's presidential gamble

Apr 19th 2007
From The Economist print edition

The secularists' case against Recep Tayyip Erdogan becoming Turkey's president is wrong

Reuters

NO COUNTRY, not even France, is more vigilant than Turkey in protecting its secular values. This reflects the legacy of Kemal Ataturk, the republic's founding father, who equated secularism with modernity. The army and most of the political elite still firmly believe this. Indeed, only ten years ago a democratically elected prime minister, Necmettin Erbakan, was ousted from office for being too Islamist.

That is the background to last weekend's massive demonstrations against the idea of Recep Tayyip Erdogan, the current prime minister, becoming Turkey's president in mid-May (see article). Mr Erdogan's ruling AK Party has a huge majority in parliament, which chooses the president, so the job is his if he wants it. But the AK Party, a mildly Islamist successor to Mr Erbakan's Welfare Party, remains problematic for Turkey's secularists. Mr Erdogan was once jailed for reading an Islamic poem in public, which is why he had to wait four months to assume the premiership after AK's big election victory in 2002.

The inside of his head, not the outside of hers

Yet even the fiercest secularist cannot deny that Mr Erdogan's government has been a smashing success compared with what went before. The economy has grown strongly after hitting rock bottom in 2001; nominal GDP per person has doubled in the past five years. The constitution, the police, the army and the judicial system have all been reformed. Thanks to these reforms, Mr Erdogan has secured a prize that eluded his predecessors for 40 years: the start of membership talks with the European Union. And despite his party's religious roots, he has not interfered with Turkey's vaunted secularism. The Muslim headscarf remains banned in public offices even though his wife wears one.

Ah, say secularists, but that is because we kept control of the veto-wielding presidency. It is true that, in deference to his party's grassroots, Mr Erdogan has sometimes touted a few overtly religious measures: the criminalisation of adultery, new privileges for *imam hatip* clerical-training schools, an Islamist as head of the central bank. And it is also true that it has sometimes fallen to the fiercely secular president, Ahmet Necdet Sezer, to block these plans, though more often they have been dropped because of pressure from the EU.

Better candidates than Mr Erdogan may yet come forward. But that is not the issue. It is whether he should be ruled out on the basis that a President Erdogan would constitute the biggest threat to the secular republic since its foundation in 1923. That is what Mr Sezer has suggested—and it is far-fetched.

The president does indeed have sweeping powers not just of veto but to choose judges, university heads and the chief of the general staff. But today's Turkey has amply proved its democratic credentials. Mr Erdogan has made plain that he has no intention of undermining the constitution's basic principles, including secularism. In fact, it could be argued that a President Erdogan, with a new AK government (if it wins the parliamentary election in November), would demonstrate once and for all that Turkey had escaped from a troubled past to become a modern, liberal republic. As it happens, a nasty outbreak of nationalism now seems a bigger obstacle to the country's EU ambitions than any rash of Islamist laws.

Mr Erdogan must decide by April 25th whether to run. He may conclude that it is better to remain as prime minister, to boost his party's chances in November. That would be a good reason not to go for the presidency. But the fierce opposition of the army and the secular elite to his candidacy would be a bad one. A strong and confident Turkey can surely cope with a head of state whose wife wears a headscarf.

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Paul Wolfowitz and the World Bank

Damage control

Apr 19th 2007
From The Economist print edition

How to move the World Bank beyond the Wolfowitz affair

AP

“OUR dream is a world free of poverty.” That lofty aspiration is emblazoned in the World Bank's Washington headquarters. “Our dream is a bank free of Wolfowitz” would be a more apt reflection of the surly reality on H Street. The bank has been consumed by a scandal surrounding its president, Paul Wolfowitz, and the outsized pay package he gave his girlfriend, a bank employee. The organisation's staff, many of whom have long loathed their neoconservative boss, are in uproar. Several European shareholder countries want him out. As *The Economist* went to press, Mr Wolfowitz still had his job, but his position was precarious and his institution paralysed.

Blame for this tawdry mess belongs in many quarters. Mr Wolfowitz's crass favouritism was, at best, a case of extremely poor judgment. But he is not the only person to have behaved shabbily. The bank's board was both irresponsible and indolent, insisting that Mr Wolfowitz decide the terms of his girlfriend's pay package himself and failing to investigate when a whistleblower alerted them to its generosity.

That needs to be kept in mind when attention turns, as it now must, to the future. Listen to the vitriol emanating from the bank and it is tempting to give up on this troubled place and find another way to channel cash to the world's poor. Tempting, but a mistake. For all its warts, the bank is still a better aid institution than any of the alternatives. It has global reach and a staff who, for all their bolshiness, are still the best in their field. Some bilateral aid agencies also stand out, but national aid schemes are generally fragmented, inefficient and far more politicised. Two years ago, rich countries promised at a meeting in Gleneagles to double aid flows to Africa by 2010. If that pledge is to be kept, the bank cannot atrophy.

So what must be done? The best step would be for Mr Wolfowitz to resign voluntarily. A man who has put the battle against graft at the top of his agenda must be beyond reproach himself. And a chief executive who has lost the confidence of so many staff and shareholders cannot effectively run any institution. Clever and well connected, Mr Wolfowitz seemed an interesting gamble when he was appointed; but he became an isolated and ineffective leader long before the recent scandal emerged (see article). If he is as passionate about helping the poor as he claims, Mr Wolfowitz ought to conclude that his goals for the bank will best be achieved without him.

If not, the bank's political masters must push him out. George Bush has pledged support, but in a perfunctory way. Distracted and embattled itself, the White House has barely paid attention to the fracas. That must change. A gentle nudge from Mr Bush or his Treasury secretary, Hank Paulson, would be the best way to resolve the Wolfowitz mess. But if the Bush team is reluctant to take the lead, the Europeans must not shrink from forcing the issue. It would be a tragedy if the Americans shirked their duty to get rid of a tarnished bank president while the Europeans used the mess as an excuse to scale back their

contributions to the bank's aid pot.

Ideally, Mr Wolfowitz's departure would prompt a new process for choosing a successor. Today's system of divvying up top international jobs by nationality (the bank's president is always American; the IMF's boss is always a European) should be abolished in favour of a competitive global search. Sadly, too many governments value these top jobs for such reform to happen quickly. More realistic, in the short-term, is to install an internationally respected American at the bank. Stan Fischer, the governor of the Bank of Israel who has worked at both the IMF and the World Bank, would be a good fit.

More control, more cash

After putting in place a new president, the bank's political masters need to get two more things right. One is to reform their own tool of oversight, the bank's executive board. Full of unremarkable bureaucrats, the board achieves the rare distinction of being both too intrusive (it must approve every loan) and also ineffective. It should become more like its corporate brethren. It could benefit from holding fewer meetings, giving its committees sharper teeth and its directors extra clout.

Second, the bank's soft-loan kitty must be replenished quickly and generously enough to fulfil the Gleneagles promises that the rich world made to the poor world. At least $25 billion needs to be pledged this year. America, which is already behind on its past payments, should go first, with the Europeans and Japanese close behind. That, more than anything else, will make sure that the real losers from the Wolfowitz debacle are not the world's poor.

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British inflation

Out of its cage

Apr 19th 2007
From The Economist print edition

Inflation is a worry, but the Bank of England has done well since it was made independent

THERE are many reasons to wonder whether Gordon Brown, Britain's chancellor of the exchequer, is the right man to become prime minister when Tony Blair steps down this summer. Mr Brown has been criticised for his "Stalinist" approach to government and much else besides, including an imprudent public-spending spree and the damage he has done to the pension system. But he has also been praised for his decision in May 1997 to give the Bank of England a free hand in keeping inflation under control—and rightly so. That bold step laid the foundations for an enviable ten years of sustained economic growth and stable prices. Even critics have found it hard to fault.

Until now, that is. The economy is still growing robustly, but inflation, it seems, is back. This week it emerged that consumer prices had risen by 3.1% in the year to March, the highest since the official series started in 1997. That was far enough from the inflation target of 2.0% to trigger an apparently embarrassing public letter to the chancellor from Mervyn King, the bank's governor, to explain why it had happened.

By the standards of post-war history, which often saw periods of double-digit inflation, the current rate may seem modest. But retail prices, a longer-established and broader measure that reflects the cost of living more accurately, rose by 4.8% in the 12 months to March, the highest since July 1991. British inflation for much of the past decade has been below the average of its European neighbours. It is now well above their 2.2%.

How big a worry should this surge in inflation be? Temporary factors pushed prices up in March and could push them down in April. Indeed, consumer-price inflation may well be close to a peak. Exceptionally rapid increases in gas and electricity prices were a big reason why inflation picked up speed in 2006. Now that these bills are starting to fall, it is likely to tumble in the months ahead.

But that does not mean that over-borrowed Britons can sit back with a sigh of relief (see article). Even though inflation may recede in the short term, Mr King is worried that the British economy is operating at a level that is too close to its capacity. It takes two years for interest-rate changes to have their full effect on prices, so under the new regime the Bank of England looks farther ahead than it did. A rise in the base rate from 5.25% to 5.5% looks certain when the bank's monetary-policy committee meets on May 10th, and this prospect has helped to push already-strong sterling through the $2 barrier. Further rate rises are looking increasingly likely.

Whether additional monetary tightening is in fact necessary after May will be for Mr King and the other eight members of the rate-setting committee to decide. Thank goodness for that. If the bank were still the creature of the ruling party at Westminster, especially at a time when Labour is choosing a new leader, who knows what subtle arguments might be advanced behind closed doors to keep rates on hold? Instead, decisions will be reached in a transparent way—minutes of each monthly meeting are published two weeks after it has been held—by a committee of appointed experts.

If you are going to swerve, do it with Merv

Britain's new monetary-policy model may be above board, but the resurgence in inflation naturally calls into question whether it is working. The answer is that the bank's operational independence is superior not only in form but also in substance to what went before. Mr King's explanatory letter to the chancellor might have seemed cause to blush, but that misses the point. The fact that it was the first since the bank

was made independent in 1997 is proof of its remarkable record in maintaining price stability since then. When the new arrangements were established, the governor was expected to put pen to paper quite often, given previous experience of how volatile inflation had been.

Of course neither Mr Brown nor the bank can take full credit for everything that has gone right. For much of the time inflation has been generally low around the world, not least because of cheap Chinese exports. And Labour's reform built on those made by the Conservative government after “Black Wednesday” in 1992, when the pound was slung out of the European exchange-rate mechanism. That ignominious experience led the Tories to adopt inflation targeting, which has transformed Britain's macroeconomic performance. Inflation may have escaped temporarily, but there is good reason to expect that an independent Bank of England will succeed in putting it back in the cage.

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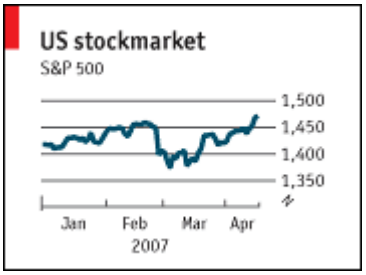
Financial markets

Twenty-six days clear

Apr 19th 2007
From The Economist print edition

A good run for investors. But for how long?



FEBRUARY, a month never over-endowed with days, was even shorter than usual this year. You may not have noticed, but February 2007 ended two days early—at least in the memory of Wall Street. The markets' tumble on February 27th seemed at the time to be a welcome reminder of the risks that investors had been running. Now, just as markets were hitting record highs, they may have received another—once again from China, where February's jitters began. Fears that the Chinese authorities would have to act to cool their piping-hot economy caused Chinese shares to fall sharply on April 19th.

It was an unwelcome intrusion into investors' irrepressible optimism. Stockmarkets had been quick to expunge traces of the February turmoil. This week the S&P 500 index passed its pre-wobble peak and reached its highest mark for six and a half years; the Dow Jones average also hit a new high. Share prices elsewhere had also more than made up the lost ground. Optimism had returned to the currency markets, where the carry trade was back with a vengeance. In the credit markets, the appetite for lending to almost anyone was undimmed. The Vix index of American stockmarket volatility, which doubled to almost 20 in early March, had returned to calmer waters.

The lesson of seven weeks ago was how savagely such sentiments can change. With profits growth slowing, enthusiasm for shares suddenly seemed a less good idea. With the housing market stalling, the same went for some mortgage lending, especially at the risky, subprime end. Weaker property prices posed a threat to consumer spending. Hopes of an interest-rate cut had faded as the Federal Reserve made it plain that inflation, still stubbornly high, topped its list of worries. Will the latest news from China have a similar bracing effect? That will emerge over the next few days. The chief question for investors remains: is the markets' run-up over the past weeks evidence that everything is truly rosy after all, or that investors are too sanguine about risk?

Most likely, the latter. Granted, it is easy to pick out some encouraging flotsam from the flood of data about the American economy. Take inflation. In March core consumer prices (which exclude food and energy) rose by only 0.1%; the annual rate dropped to 2.5% from 2.7% in February. That is good news, but it may not ease the Fed's concerns much. When you add back in food and energy, the overall rate climbed. Housing starts rose in March. Terrific—until you remember America's huge overhang of unsold homes. In the first quarter as a whole, housing starts fell at an annual rate of 20%. The National Association of Home Builders, whose confidence index fell this month, sounds justifiably gloomy.

Stand back and look at the whole picture, and it is harder to be optimistic. The American economy is still slowing to below its recent trend. And the concerns about China growing too fast have, if anything, increased. From an economist's viewpoint, the euphoria needs to be tempered.

A safer, riskier world

That leaves the argument that financial markets have become permanently safer and more liquid. That is one conclusion to be drawn from the fantastic rate at which the sheer number of financial markets has expanded. Just about any bet can be laid, taken and hedged. Besides boring old bonds, shares and currencies, you can buy and sell a bewildering array of derivatives based on them. In the fast-expanding world of credit derivatives (see article), investors can bet on (or against) the creditworthiness of companies without going to the trouble of lending to them.

But this new world has new risks too. If lenders know they can sell risk on quickly, they have less incentive to worry about repayment than when loans stayed on their books. When watching credit risk

becomes no one's responsibility, the consequences can be painful, as the subprime-mortgage mess shows. A few weeks ago, it seemed that this lesson had been learned. Perhaps it is about to be dished out again.

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On biofuels, missile defences, immigration, Colombia, plastic bags, aliens

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Taking grain to market

SIR – There is no basis for the politically motivated scare tactics which imply that using crops to make ethanol would take food away from the mouths of the world's hungry ("Castro was right", April 7th). I encourage Fidel Castro and Hugo Chávez to study the economies of Vietnam and Zimbabwe. Vietnam has turned its collectivised agricultural system into a free and open market and it is now the world's third-biggest exporter of rice. Contrast this with Zimbabwe's agricultural policies, which have turned what was sub-Saharan Africa's grain basket into a country that is facing starvation.

World hunger is not about a battle between rich and poor; it is about inefficient centrally planned agricultural systems that still survive in the 21st century. A recent study showed that if Cuba recapitalised its sugar-cane industry it would produce 4m tonnes of sugar and 660m gallons of ethanol within five years, generating annual revenues of $2.5 billion.

Jorge Piñon
Senior research associate
University of Miami
Coral Gables, Florida

SIR – Much has been written about the rush to grow maize to make ethanol. But using crops for fuel is nothing new. Until the widespread use of the engine, the main fuel that drove transport came from the oats that were fed to horses. In the earlier part of the 20th century half of the land given over to cereal production in Britain was planted for oats. In 2006 it was just 4%.

Malcolm Shepherd
Gillingham, Dorset

SIR – If Mr Castro and *The Economist* agree that turning food into fuel is a sin, then both might consider becoming vegan. In caloric terms, turning corn into ethanol is much more efficient than turning corn into meat.

Ed Canler
Chattanooga, Tennessee

Circle of trust

SIR – Your article on NATO's missile defences failed to mention a fact that seems to have been missed regarding America's plans to locate radars and a few ballistic-missile interceptors in Europe ("A few interceptors, a big gap", March 31st). Russia has had an array of 100 ballistic-missile interceptors ringing Moscow that are capable of providing protection against limited ballistic-missile attacks for many years now. These interceptors have not started an arms race in Europe or elsewhere.

George Paulikas
Palos Verdes Estates, California

Family reunions

SIR – Lexington uses "The Namesake", a film about a Bengali immigrant to the United States, to

illustrate his point that America's immigration system is “skewed to uniting families rather than to attracting talent” (March 24th). However, in reality not all immigrants are free to come and go as easily as the film's main character. The waiting period for many families of Asian-Americans can be 15 years. Moreover, you ignore the fact that immigrants' family members already possess valuable work experience and talent that strengthens America as a whole. The “family” is one of America's most fundamental social institutions, which immigrants are eager to join.

Karen Narasaki
President
Asian American Justice Centre
Washington, DC

SIR – If the Democrats stall in supporting an immigration bill until one of their own arrives in the White House it will be no less “selfish” than Republicans passing legislation with one eye on future elections (“Bringing order to the border”, April 14th). When the Republicans ran Congress they rejected liberal immigration reform that George Bush supported and instead treated hard-working immigrants as criminals by funding security fences along the border with Mexico. Neither the Democrats nor the Republicans are coherent in the matter. Perhaps, as with NAFTA, it will be a President Bush who pushes a bill and a President Clinton who gets to sign it.

Felipe Alonso
Mexico City

Helping Colombia

SIR – You are correct to point out that a weakening of support for Colombia by Congress would be against America's interest (“How to boost the coca crop”, March 24th). Colombia has made a remarkable recovery under the administration of Álvaro Uribe. Plan Colombia, which provides American funds to fight drug trafficking and guerrillas, contributed greatly to that improvement. To reduce aid to Colombia now in reaction to the political scandals thrown up by the demobilisation of the paramilitaries would risk repeating the errors of the mid-1990s, when American sanctions weakened the Colombian state.

Colombia needs more aid, not less, to complete the demobilisation process successfully. This process has already saved many lives—close to 3,000 in one estimate. The leaders of the paramilitaries are in jail and their assets are being seized. Their political allies have been arrested. Some 25,000 of their victims have dared come forward to demand reparation. It would be unforgivable if all of this was allowed to fail through a lack of international support.

Sir Keith Morris
British ambassador to Colombia, 1990-94
London

The carry trade

SIR – I cannot understand why San Francisco wants to ban plastic shopping bags as they are one of the most useful inventions (“Plastics of evil”, March 31st). They are versatile and cost about one cent, compared with six cents for paper grocery bags. (By the way, it makes no economic sense to “recycle” an item costing one cent.) Now along comes retrograde San Francisco. It wants to impose a costly “compostable” plastic bag that costs eight cents. In other words, wasting seven out of eight cents. Something is very wrong when public officials think taxpayers should support a step backwards.

Carl Olson
Woodland Hills, California

On another planet

SIR – Thank you for selecting Robert Taylor, who claimed to have been abducted by aliens, for your obituary (March 31st). Mentioning the word “alien” is quite alien to most reputable newspapers these days. Magazines don't print serious articles about spacecraft sightings, which are commonplace, just farcical stories about alien babies born to neighbours.

I have a friend who visited me last summer. On the way here he did some hiking and saw a craft similar

to the one Mr Taylor described to the police. My friend discussed this sighting with me (a grey, saucer-shaped vessel that hovered above the ground for ten minutes before vanishing), but he would not report it for fear of ridicule. Too bad.

We humans have become conditioned by Hollywood to think aliens would vaporise every creature on the planet. There is no compelling reason to think that this would be the case. It didn't happen in Roswell and it didn't happen to Mr Taylor. It would be exciting to learn that other living beings exist in space. No North Korean or Iranian in their right mind would fight back against an alien. Would they?

Mike Baker
Park City, Utah

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Evolution and religion

In the beginning

Apr 19th 2007 | ISTANBUL, MOSCOW AND ROME
From The Economist print edition

Bridgeman Art Library

The debate over creation and evolution, once most conspicuous in America, is fast going global

THE “Atlas of Creation” runs to 770 pages and is lavishly illustrated with photographs of fossils and living animals, interlaced with quotations from the Koran. Its author claims to prove not only the falsehood of Charles Darwin's theory of evolution by natural selection, but the links between “Darwinism” and such diverse evils as communism, fascism and terrorism. In recent weeks the “Atlas de la Création” has been arriving unsolicited and free of charge at schools and universities across French-speaking Europe. It is the latest sign of a revolt against the theories of Darwin, on which virtually the whole of modern biology is based, that is gathering momentum in many parts of the world.

The mass distribution of a French version of the “Atlas” (already published in English and Turkish) typifies the style of an Istanbul publishing house whose sole business is the dissemination, in many languages, of scores of works by a single author, a charismatic but controversial Turkish preacher who writes as Harun Yahya but is really called Adnan Oktar. According to a Turkish scientist who now lives in America, the movement founded by Mr Oktar is “powerful, global and very well financed”. Translations of Mr Oktar's work into tongues like Arabic, Urdu and Bahasa Indonesia have ensured a large following in Muslim countries.

In his native Turkey there are many people, including devout Muslims, who feel uncomfortable about the 51-year-old Mr Oktar's strong appeal to young women and his political sympathies for the nationalist right. But across the Muslim world he seems to be riding high. Many of the most popular Islamic websites refer readers to his vast canon.

In the more prosperous parts of the historically Christian world, Mr Oktar's flamboyant style would be unappealing, even to religious believers. Among mainstream Catholics and liberal Protestants, clerical pronouncements on creation and evolution are often couched in careful—and for many people, almost impenetrable—theological language. For example, Rowan Williams, the Archbishop of Canterbury and leader of the world's 80m Anglicans, has dismissed literal readings of the Creation story in Genesis as a “category mistake”. But no such highbrow reticence holds back the more zealous Christian movements in the developing world, where the strongest religious medicine seems to go down best.

In Kenya, for example, there is a bitter controversy over plans to put on display the most complete skeleton of a prehistoric human being ever found, a figure known as Turkana Boy—along with a collection of fossils, some of which may be as much as 200m years old. Bishop Boniface Adoyo, an evangelical leader who claims to speak for 35 denominations and 10m believers, has denounced the proposed exhibit, asserting that: “I did not evolve from Turkana Boy or anything like it.”

Richard Leakey, the palaeontologist who unearthed both the skeleton and the fossils in northern Kenya, is adamant that the show must go on. “Whether the bishop likes it or not, Turkana Boy is a distant relation of his,” Mr Leakey has insisted. Local Catholics have backed him.

Rows over religion and reason are also raging in Russia. In recent weeks the Russian Orthodox Church has backed a family in St Petersburg who (unsuccessfully) sued the education authorities for teaching only about evolution to explain the origins of life. Plunging into deep scientific waters, a spokesman for the Moscow Patriarchate, Father Vsevolod Chaplin, said Darwin's theory of evolution was “based on pretty strained argumentation”—and that physical evidence cited in its support “can never prove that one biological species can evolve into another.”

A much more nuanced critique, not of Darwin himself but of secular world-views based on Darwin's ideas, has been advanced by Pope Benedict XVI, the conservative Bavarian who assumed the most powerful office in the Christian world two years ago. The pope marked his 80th birthday this week by publishing a book on Jesus Christ. But for Vatican-watchers, an equally important event was the issue in German, a few days earlier, of a book in which the pontiff and several key advisers expound their views on the emergence of the universe and life. While avoiding the cruder arguments that have been used to challenge Darwin's theories, the pope asserts that evolution cannot be conclusively proved; and that the manner in which life developed was indicative of a “divine reason” which could not be discerned by scientific methods alone.

Both in his previous role as the chief enforcer of Catholic doctrine and since his enthronement, the former Cardinal Joseph Ratzinger has made clear his profound belief that man has a unique, God-given role in the animal kingdom; and that a divine creator has an ongoing role in sustaining the universe, something far more than just “lighting the blue touch paper” for the Big Bang, the event that scientists think set the universe in motion.

Yesterday America, today the world

As these examples from around the world show, the debate over creation, evolution and religion is rapidly going global. Until recently, all the hottest public arguments had taken place in the United States, where school boards in many districts and states tried to restrict the teaching of Darwin's idea that life in its myriad forms evolved through a natural process of adaptation to changing conditions.

Darwin-bashers in America suffered a body-blow in December 2005, when a judge—striking down the policies of a district school board in Pennsylvania—delivered a 139-page verdict that delved deeply into questions about the origin of life and tore apart the case made by the “intelligent design” camp: the idea that some features of the natural world can be explained only by the direct intervention of a ingenious creator.

Intelligent design, the judge found, was a religious theory, not a scientific one—and its teaching in schools violated the constitution, which bars the establishment of any religion. One point advanced in favour of intelligent design—the “irreducible complexity” of some living things—was purportedly scientific, but it was not well-founded, the judge ruled. Proponents of intelligent design were also dishonest in saying that where there were gaps in evolutionary theory, their own view was the only alternative, according to the judge.

The Seattle-based Discovery Institute, which has spearheaded the American campaign to counter-balance the teaching of evolution, artfully distanced itself from the Pennsylvania case, saying the local school board had gone too far in mixing intelligent design with a more overtly religious doctrine of “creationism”. But the verdict made it much harder for school boards in other parts of America to mandate curbs on the teaching of evolution, as many have tried to do—to the horror of most professional scientists.

Whatever the defeats they have suffered on home ground, American foes of Darwin seem to be gaining influence elsewhere. In February several luminaries of the anti-evolution movement in the United States went to Istanbul for a grand conference where Darwin's ideas were roundly denounced. The organiser of the gathering was a Turkish Muslim author and columnist, Mustafa Akyol, who forged strong American connections during a fellowship at the Discovery Institute.

To the dismay of some Americans and the delight of others, Mr Akyol was invited to give evidence (against Darwin's ideas) at hearings held by the Kansas school board in 2005 on how science should be

taught. Mr Akyol, an advocate of reconciliation between Muslims and the West who is much in demand at conferences on the future of Islam, is careful to distinguish his position from that of the extravagant publishing venture in his home city. “They make some valid criticisms of Darwinism, but I disagree with most of their other views,” insists the young author, whose other favourite cause is the compatibility between Islam and Western liberal ideals, including human rights and capitalism. But a multi-layered anti-Darwin movement has certainly brought about a climate in Turkey and other Muslim countries that makes sure challenges to evolution theory, be they sophisticated or crude, are often well received.

America's arguments over evolution are also being followed closely in Brazil, where—as the pope will find when he visits the country next month—various forms of evangelicalism and Pentecostalism are advancing rapidly at the expense of the majority Catholic faith. Samuel Rodovalho, an activist in Brazil's Pentecostal church, puts it simply: “We are convinced that the story of Genesis is right, and we take heart from the fact that in North America the teaching of evolution in schools has been challenged.”

Even in the United States, defenders of evolution teaching do not see their battle as won. There was widespread dismay in their ranks in February when John McCain, a Republican presidential candidate, accepted an invitation (albeit to talk about geopolitics, not science) from the Discovery Institute. And some opponents of intelligent design are still recovering from their shock at reading in the *New York Times* a commentary written, partly at the prompting of the Discovery Institute, by the pope's close friend, Cardinal Christoph Schönborn, the Archbishop of Vienna.

In his July 2005 article the cardinal seemed to challenge what most scientists would see as axiomatic—the idea that natural selection is an adequate explanation for the diversity and complexity of life in all its forms. Within days, the pope and his advisers found they had new interlocutors. Lawrence Krauss, an American physicist in the front-line of courtroom battles over education, fired off a letter to the Vatican urging a clarification. An agnostic Jew who insists that evolution neither disproves nor affirms any particular faith, Mr Krauss recruited as co-signatories two American biologists who were also devout Catholics. Around the same time, another Catholic voice was raised in support of evolution, that of Father George Coyne, a Jesuit astronomer who until last year was head of the Vatican observatory in Rome. Mr Krauss reckons his missive helped to nudge the Catholic authorities into clarifying their view and insisting that they did still accept natural selection as a scientific theory.

But that was not the end of the story. Catholic physicists, biologists and astronomers (like Father Coyne) insisted that there was no reason to revise their view that intelligent design is bad science. And they expressed concern (as the Christian philosopher Augustine did in the 4th century) that if the Christian church teaches things about the physical world which are manifestly false, then everything else the church teaches might be discredited too. But there is also a feeling among Pope Benedict's senior advisers that in rejecting intelligent design as it is understood in America they must not go too far in endorsing the idea that Darwinian evolution says all that needs to be, or can be, said about how the world came to be.

The net result has been the emergence of two distinct camps among the Catholic pundits who aspire to influence the pope. In one there are people such as Father Coyne, who believe (like the agnostic Mr Krauss) that physics and metaphysics can and should be separated. From his new base at a parish in North Carolina, Father Coyne insists strongly on the integrity of science—“natural phenomena have natural causes”—and he is as firm as any secular biologist in asserting that every year the theory of evolution is consolidated with fresh evidence.

In the second camp are those, including some high up in the Vatican bureaucracy, who feel that Catholic scientists like Father Coyne have gone too far in accepting the world-view of their secular colleagues. This camp stresses that Darwinian science should not seduce people into believing that man evolved purely as the result of a process of random selection. While rejecting American-style intelligent design, some authoritative Catholic thinkers claim to see God's hand in “convergence”: the apparent fact that, as they put it, similar processes and structures are present in organisms that have evolved separately.

As an example of Catholic thinking that is relatively critical of science-based views of the world, take Father Joseph Fessio, the provost of Ave Maria University in Florida and a participant in a seminar on creation and evolution which led to the new book with papal input. As Father Fessio observes, Catholics accept three different ways of learning about reality: empirical observation, direct revelations from God and, between those two categories, “natural philosophy”—the ability of human reason to discern divine reason in the created universe. That is not quite intelligent design, but it does sound similar. The mainly Protestant heritage of the United States may be one reason why the idea of “natural philosophy” is poorly understood by American thinkers, Father Fessio playfully suggests. (Another problem the Vatican may face is that Orthodox Christian theologians, as well as Catholic mystics, are wary of “natural philosophy”:

they insist that mystical communion with God is radically different from observation or speculation by the human brain.)

The evolution of the anti-evolutionists

Whatever they think about science, there is one crucial problem that all Christian thinkers about creation must wrestle with: the status of the human being in relation to other creatures, and the whole universe. There is no reading of Christianity which does not assert the belief that mankind, while part of the animal kingdom, has a unique vocation and potential to enhance the rest of creation, or else to destroy it. This point has been especially emphasised by Pope Benedict's interlocutors in the Orthodox church, such as its senior prelate Patriarch Bartholomew I, who has been nudging the Vatican to take a stronger line on man's effect on the environment and climate change.

For Father Coyne, belief in man's unique status is entirely consistent with an evolutionary view of life. “The fact we are at the end of this marvellous process is something that glorifies us,” he says.

But Benedict XVI apparently wants to lay down an even stronger line on the status of man as a species produced by divine ordinance, not just random selection. “Man is the only creature on earth that God willed for his own sake,” says a document issued under Pope John Paul II and approved by the then Cardinal Ratzinger.

What is not quite clear is whether the current pope accepts the “Chinese wall” that his old scientific adviser, Father Coyne, has struggled to preserve between physics and metaphysics. It is in the name of this Chinese wall that Father Coyne and other Catholic scientists have been able to make common cause with agnostics, like Mr Krauss, in defence of the scientific method. What the Jesuit astronomer and his secular friends all share is the belief that people who agree about physics can differ about metaphysics or religion.

Critics like Father Fessio would retort that their problem was not with the Chinese wall—but with an attempt to tear it down by scientists whose position is both Darwinist and anti-religious: in other words, with those who believe that scientific observation of the universe leaves no room at all for religious belief. (Some scientists and philosophers go further, dismissing religion itself as a phenomenon brought about by man's evolutionary needs.)

The new book quoting Pope Benedict's contributions to last year's seminar shows him doing his best to pick his way through these arguments: accepting that scientific descriptions of the universe are valid as far as they go, while insisting that they are ultimately incomplete as a way of explaining how things came to be. On those points, he seems to share the “anti-Darwinist” position of Father Fessio; but he also agrees with Father Coyne that a “God of the gaps” theory—which uses a deity to fill in the real or imagined holes in evolutionary science—is too small-minded. Only a handful of the world's 2 billion Christians will be able to make sense of his intricate intellectual arguments, and there is a risk that simplistic reporting and faulty interpretation of his ideas could create the impression that the pope has deserted to the ranks of the outright anti-evolutionists; he has done no such thing, his advisers insist.

Not that the advocates of intelligent design or outright creationists are in need of anyone's endorsement. Their ideas are flourishing and their numbers growing. As Mr Krauss has caustically argued, the anti-evolution movement is itself a prime example of evolution and adaptability—defeated in one arena, it will resurface elsewhere. His ally Father Coyne, the devoted star-gazer, is one of the relatively few boffins who have managed to expound with equal passion both their scientific views and their religious beliefs. He writes with breathless excitement about “the dance of the fertile universe, a ballet with three ballerinas: chance, necessity and fertility.” Whether they are atheists or theists, other supporters of Darwin's ideas on natural selection will have to inspire as well as inform if they are to compete with their growing army of foes.

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The Virginia Tech massacre

In the university of death

Apr 19th 2007 | BLACKSBURG, VIRGINIA
From The Economist print edition

Reuters

The horror might have happened anyway. But gun control might have made it less easy

“YOU caused me to do this.” That was Cho Seung-hui's excuse for murdering 32 people. Police found an essay in the young student's room that appeared to blame everyone but himself for what he was about to do. In it, he raged against religion, women, rich kids, debauchery and the “deceitful charlatans” at Virginia Tech, where he was studying English.

It was the worst peacetime shooting in American history. Investigators are still scrambling to work out what happened when, but a combination of announcements, leaks and witnesses suggest that it went something like this. Around 7.15 in the morning on April 16th, in a dormitory called West Ambler-Johnston Hall, Cho shot and killed Emily Hilscher, an attractive 19-year-old would-be vet. Around the same time, he shot Ryan Clark, a popular member of the university marching band. Why he chose these two as his first victims is unknown. Rumours that he was attracted to Miss Hilscher are, inevitably, circulating. Mr Clark may have been shot because he tried to intervene.

On finding the bodies, the police assumed it was a domestic dispute and sought Miss Hilscher's boyfriend, who had dropped her off at the dormitory that morning in his pick-up truck. They found him, pulled him over and questioned him.

Meanwhile, Cho was mailing a manifesto to NBC News. It included pictures of him posing with guns, video clips and a rambling and obscene diatribe against wealthy people. At 9.05, while police were still pre-occupied with Miss Hilscher's boyfriend, Cho entered Norris Hall, a block of classrooms half a mile from Ambler-Johnston. He locked the doors with chains to stop people escaping. Then he walked into classrooms, one by one, and tried to kill everyone inside. He had two guns: a Glock 9mm and a Walther P22. Both are semi-automatic: they fire bullets as quickly as you can keep pulling the trigger. Each Glock magazine held 15 rounds; the Walther's held 10.

Survivors said the gunman killed without saying a word. He shot teachers and students at close range, in the face, in the mouth, anywhere. He put about three bullets into each victim, to make sure. Every time he emptied a magazine, he reloaded with skill and speed. He had plenty of ammunition. He kept on killing until police burst into Norris Hall. Then he shot himself. His face was so badly disfigured that police found it hard, at first, to identify him.

Some of his classmates had a hunch, though. When the news broke that a gunman was shooting people at random, several guessed it was Cho. He had always been quiet in class—in fact, he rarely spoke to anyone. He hid behind sunglasses, a hat and a blank expression. But his classmates found him intimidating. It was his imagination that alarmed them.

He wrote two short plays for a creative-writing class. Nearly every line speaks of gore. The cardboard dialogue suggests an author who never really listened to other people. And the plots are suffused with anxious fury: about money, sex, religion and overbearing adults.

In one play, called “Richard McBeef”, a 13-year-old boy sits in his bedroom throwing darts at his stepfather's picture, muttering: “You don't think I can kill you, Dick? You don't think I can kill you? Gotcha. Got one eye. Got the other eye.” The 13-year-old protagonist thinks his stepfather is a paedophile and a murderer, and that he has covered up his conspiracies. The play ends with the stepfather killing the boy.

In 2005 two female students complained to the police that Cho was stalking them, but declined to press charges. Police warned him off but did not arrest him because he had made no specific threats. A district court found reason to believe him “mentally ill” and “an imminent danger to self or others” and ordered him to undergo a psychiatric test. But the examination found “his insight and judgment are normal” and he was discharged.

He bought a gun on February 9th, at a pawnshop, and another on March 16th, at a gun shop in a nearby town. Both sales were legal. Cho was a native South Korean, but he had lived in America since he was eight years old. His family owned a dry-cleaning business in northern Virginia. Cho was a legal, permanent resident. He showed the gun dealer three forms of identification: a Virginia driving licence, a cheque book with a matching address and an immigration card.

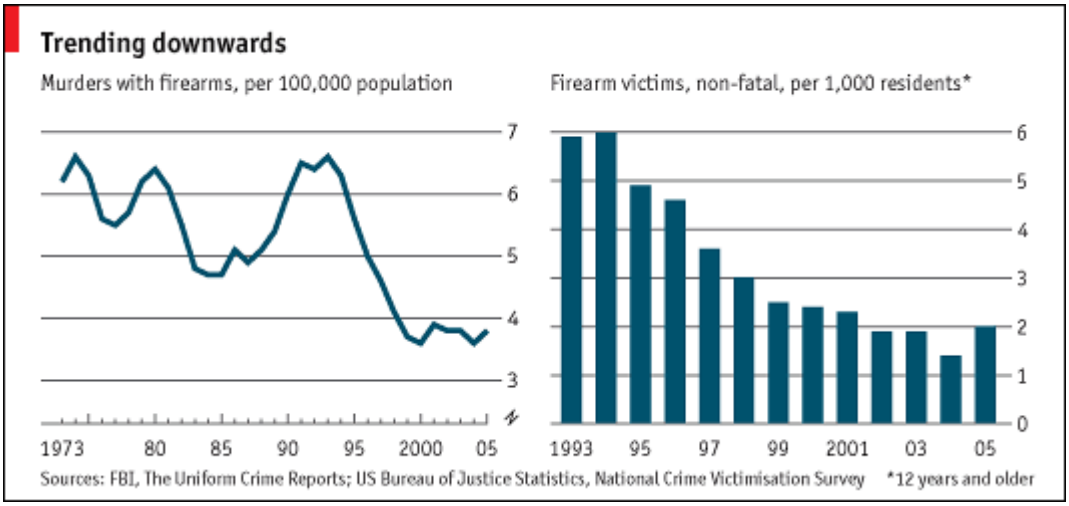
A quick background check showed he had no criminal record, so he was entitled, under Virginia law, to buy one gun each month. The gunshop owner insisted he found nothing suspicious about the clean-cut college boy.

Cho's victims—and he injured as many as he killed—were a fair cross-section of Virginia Tech. There were teachers and students, engineers and international-studies majors. One professor, Liviu Librescu, a 76-year-old Holocaust survivor, blocked the door of his classroom with his body to slow Cho's entrance. This bought enough time for his students to jump out of the window. But not enough for Mr Librescu himself to escape.

Many people asked how the horror might have been averted. Some complained that Virginia Tech should have warned students immediately after the first shootings, rather than waiting two hours, that the campus should have been “locked down” straight away, and that security at universities in general is too lax.

With hindsight, it is clear that early warnings might have been useful. But police did not know who they were looking for or what kind of threat he posed until it was too late. Locking down the entire campus is tricky when the campus is the size of a small town. And American universities in general are extremely safe places. So guarding student dormitories is hardly the most urgent task for the police. Most Virginia Tech students seem to think that the university coped just about as well as it could have.

Some critics wondered why more could not have been done about Cho's obviously troubled mental state. The question is, what? Until this week he had harmed no one, so it is not clear that there was enough justification for medicating him against his will or locking him up. Probably the most fruitful lessons to be learned from Virginia Tech concern guns.



The day after the shooting, the flags were flying at half-mast outside the Virginia headquarters of the National Rifle Association (NRA). America's mighty gun lobby tries to keep a respectfully low profile at times like these. But it responds to the challenges that inevitably arise when the weapons it champions are used to kill innocents.

Some Democrats called for tighter gun controls. Senator Dianne Feinstein of California lamented that “shootings like these are enabled by the unparalleled ease with which people procure weapons in this country” and said she hoped that the tragedy would “reignite the dormant effort to pass common-sense gun regulations”. But most politicians showed little enthusiasm for this idea. President George Bush said that “now is not the time to do the debate [on gun control].” Harry Reid, the Senate's Democratic majority leader, warned against a “rush to judgment”.

There is little danger of that. The blood-letting in Blacksburg is unlikely to shift the debate about guns, because the two sides draw opposing conclusions from it. Those who already favour gun control argue that if Cho had been barred from buying semi-automatic weapons, he could not have killed so many people. Those who oppose gun controls argue that if only his victims had been armed, they could have shot him before he shot more than a few of them.

Why politicians buckle

The academic debate about whether guns save more innocent lives than they cut short, or vice versa, may never end. Most Americans are inclined to believe the latter. But politicians bow to the gun enthusiasts because their beliefs are much more likely to determine how they vote.

AP

Self-portrait between killings

In the 1990s, the Democrats tried to impose modest gun controls. For example, in 1994 President Bill Clinton signed a ban on assault weapons—military-type rapid-fire rifles with no conceivable civilian use except perhaps to defend one's home against a whole gang of drug-dealers. President Bush allowed this ban to lapse in 2004, however, and the Democrats are convinced that gun control helped them lose elections in 1994 and 2000.

The reason is that, no matter how often the Democrats promise not to take away hunters' rifles, the NRA treats any curb on gun rights as a first step towards complete disarmament. And without their 240m guns, it argues, Americans will be defenceless not only against criminals but also against tyranny. The NRA draws on history to support its arguments. The first European settlers conquered America with guns; British soldiers tried to confiscate them, but the Americans revolted and shot off the superpower's yoke.

This may be a selective view of history, but it is still relevant, for two reasons. One is that the notion of a right to bear arms is enshrined in the constitution. The other is that the NRA constantly exaggerates threats to gun-owners. Its sells books such as “Thank God I Had a Gun: True Accounts of Self-Defence”. It relentlessly publicises the fact that police in New Orleans, during the looting spree that followed Hurricane Katrina, confiscated some legally-held guns. And its chief, Wayne LaPierre, has peddled for years the absurd theory that the United Nations is plotting to take away Americans' guns.

Few urban Americans swallow this twaddle, which is why many cities have stiff anti-gun laws. But some rural people do, and plenty more love hunting and think anti-gun Democrats are wusses. To counter this image and court rural votes, the Democratic Party has largely abandoned its gun-control crusade. Its presidential candidates now play up their love of hunting, real or otherwise. In several states, the party has recruited serious gun enthusiasts as candidates. The Democratic governor of Montana boasts that he has more guns than he needs, but not as many as he would like. And the Democrats won control of the Senate last year by fielding a pro-gun war hero to snatch a pro-gun state from a pro-gun Republican incumbent. That state was Virginia.

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Gun laws in Texas

Standing their ground

Apr 19th 2007 | AUSTIN
From The Economist print edition

A man's office is his castle. And his car, too

Get article background

ON TUESDAY afternoon, as news about the Virginia Tech murders filtered out, the staff of a hamburger restaurant in downtown Austin gathered in front of a television suspended over the bar. A boyish-looking waiter speculated that if the gunman had really used a 9mm handgun, he must have had an accomplice. That handgun can hold a fair number of bullets, he said, but the gunman would have had to stop to reload.

It is not unusual for a Texan to be casually conversant about firearms. A state resident does not need a permit to buy a gun and guns do not have to be registered. Police are, as a result, not sure how many guns there are in the state. But the number is substantial. In a 2001 poll by the Behavioural Risk Factor Surveillance Survey, 36% of respondents said that their household had at least one.

The state's gun laws are lax, and becoming more so all the time. In March Governor Rick Perry signed a bill into law that gives increased discretion to open fire. Previously, Texans were justified in killing someone only if “a reasonable person in the actor's situation would not have retreated”. The new law, which takes effect in September, eliminates the need for escape attempts. It assumes that the otherwise law-abiding citizen had a good reason for standing their ground. It also gives shooters immunity from civil suits.

The law has plenty of critics. Law-enforcement officials say the duty to retreat saves lives because it discourages people from escalating conflicts. The new law seems to protect hysterical trigger-fingers who feel themselves genuinely threatened when no real threat exists.

The law was probably not necessary anyway. There is no carjacking crisis in the state. And juries have never been sticklers about the duty to retreat. There is widespread sympathy for the idea that, as Oliver Wendell Holmes put it in 1921, “Detached reflection cannot be demanded in the presence of an uplifted knife.”

Still, the bill flew through the legislature with broad support. In a way, it simply marks a return to form for the state. Texas did not acknowledge a duty to retreat until 1973. And Texas is just the 16th state to pass such legislation since Florida did so in 2005. Florida's law goes even further, as it presumes that any cat burglar has murderous intent.

Texans largely support gun ownership, despite the fact that the state has experienced mass murders of its own. In 1966 Charles Whitman, a student at the University of Texas at Austin, shot almost 50 passers-by from the top of the campus clock-tower. Sixteen died. And in 1991 George Hennard drove his truck into a restaurant in the small town of Killeen, where he killed 23 patrons before killing himself. Before this week, those episodes were, respectively, the deadliest campus shooting and the worst mass shooting in America's history.

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The José Padilla trial

A witness in shades

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From The Economist print edition

Farcical tactics in the war on terror

AP

Docile pawn or deadly threat?

THE arrest of José Padilla on suspicion of planning a radioactive “dirty bomb” in 2002 seemed to confirm two things: that America faced enemies who would go to any lengths, and that the Bush administration was on top of the threat. But as jury selection at last began on April 17th, five years after Mr Padilla's arrest, he is not being tried for a dirty-bomb plot. Instead, he is charged with being part of a conspiracy to support al-Qaeda from inside America and to murder Americans overseas. The case has become a mess and a headache for the Bush administration.

It is quite possible that Mr Padilla intended to harm Americans—that, as George Bush remarked after he was arrested, he was “a bad guy”. A key piece of the prosecution's evidence will be a document, said to be an application of sorts, that Mr Padilla is said to have filled out in hopes of joining al-Qaeda. The paper, allegedly from an al-Qaeda safehouse in Afghanistan, is said to bear his fingerprints.

But to show that the paper is what the prosecution says it is, and to prove its provenance, a CIA officer will have to testify. This has turned out to be tricky. The agency wants its man, who worked in secret in Afghanistan and remains undercover, to testify in disguise. But will testimony by an unidentified CIA employee, presumably in shades and with a false moustache, really be used to put Mr Padilla in prison for up to 30 years? After revelations of CIA involvement in “black sites” (secret prisons), “extraordinary rendition” (sending suspects to allies to be interrogated and possibly tortured) and “coercive interrogations” (waterboarding), any jury might look askance at testimony from an anonymous agency man.

Proceedings against Mr Padilla, an American citizen by birth and upbringing, have been vexed from the start. First, Mr Bush declared him an “unlawful” enemy combatant, without the habeas corpus right to challenge his detention. The first challenge to that designation was thrown out by the Supreme Court on a technicality. (The judges ruled that the petition must be brought in South Carolina, where Mr Padilla was held in a military prison, not in New York.)

Shortly before the case went to the high court again, in April 2006, the government unsealed an indictment against Mr Padilla, changing his status from enemy combatant to ordinary criminal defendant and sending him to an ordinary federal prison. When his case reached the Supreme Court it was tossed out as no longer relevant, since Mr Padilla would at last be getting his trial. With this decision, the court ducked the question of whether the president may hold anyone, including American citizens, without trial or a lawyer indefinitely in its unending “war on terror”.

Last December the military authorities released a video to Mr Padilla's lawyers of a visit by him to the dentist, while he was still in the military brig. In the video a docile Mr Padilla is shackled hand and foot, deafened by headphones, blinded by blacked-out goggles and escorted by guards in riot gear. Meanwhile, his lawyers say, the brig authorities had called him as docile as “a piece of furniture”. They say his isolation, and interrogation techniques amounting to torture (stress positions, hooding and execution threats), have made their client unfit to stand trial and take part in his own defence. He is unsure whether his own lawyers are not actually interrogating him for the government.

Mr Padilla, who changed his name to Abdullah al-Mujahir and travelled to Afghanistan and Pakistan, may well have signed up to radical Islam and intended to harm Americans. But though the Bureau of Prisons has declared him “competent”, he is clearly more a pawn than a terrorist mastermind. Whatever evidence is presented against him now, any guilty verdict would be tainted by the treatment that he has received from his own government.

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The coastguard

In Deepwater

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From The Economist print edition

Attempts to modernise the ageing fleet nearly sink it instead

AP

At least the rope is new

ALONG Washington state's rocky coastline and inland waters, the red-and-white patrol boats and helicopters of the United States Coast Guard are a familiar sight. More than a dozen coastguard ships and aircraft and nearly 6,000 personnel work there, rescuing stricken boaters, helping with seaport security, enforcing maritime laws and so on. The job can be dangerous: in late March a coastguard petty officer fell overboard and died, and last summer two divers serving on a Seattle-based coastguard icebreaker drowned while training near the Arctic Circle.

Although it is busy and obvious and well known, the coastguard has long been a poor sibling to the navy, army and air force. At the same time, its responsibilities have grown. In 2003 it became part of the Department of Homeland Security, with increased emphasis on protecting America's 361 ports and 95,000 miles (153,000km) of coastline from terrorists.

Yet the 40,000-member service has to scratch desperately for money from Congress. Its boats are often in poor shape; some patrol cutters are over 50 years old. In 2005 *USA Today* ran a story on life aboard a 210-foot (64-metre) cutter, where equipment regularly malfunctioned and raw sewage flooded the sleeping quarters.

In an attempt to remedy all this, and to win back prestige, the coastguard launched “Deepwater” in the 1990s. This was a $24 billion upgrade of its ships and aircraft. The goal was a modernised fleet and air arm with complementary communications and tracking equipment, lower maintenance and better conditions for the crew. Contracts to start building were signed in 2002.

Five years on, Deepwater is plagued by catastrophe. A plan to enlarge the coastguard's 110-foot cutters into more capable 123-foot boats was scrapped last autumn after the first eight refitted boats showed signs of cracking apart. The flagships of Deepwater—eight state-of-the-art 418-foot National Security Cutters, the first of which is nearing completion—have structural flaws that will probably shorten their projected 30-year service life and lead to costly repairs.

Then, in the middle of last month, the coastguard cancelled a $600m contract to build the first 12 of 58 fast cutters. The vessels were going to be so heavy that one critic suggested they would be more like bricks than boats. These miseries have added millions of dollars to the Deepwater budget—and hampered the coastguard's ability to do its work.

What went wrong? Two things, says Steve Ellis, a graduate of the US Coast Guard Academy and vice-

president of Taxpayers for Common Sense, a group based in Washington, DC. The first mistake was the decision by the coastguard's admirals to think big: they wanted to attract the attention of contractors and, more important, Congress.

Rather than incrementally improving its ships and planes, the service tried to create what coastguard leaders called a “system-of-systems”. The idea was to build scores of new cutters, small boats, manned and unmanned aircraft, all with complementary electronics and design features that worked in unison. At one fell swoop, thought the high-ups, all their troubles would be solved.

But Deepwater was an unwieldy concept built round an unwieldy buzzword. And no one in the coastguard had the vaguest idea how to manage it, says Mr Ellis. So—its second mistake—the service had to rely on outside contractors, Lockheed Martin and Northrop Grumman, to run almost the whole programme as a joint venture. According to Kevin Jarvis, a retired coastguard captain who worked on Deepwater and testified before a Senate committee in February, these “world class” contractors kept coastguard leaders in the dark about many of the problems. Meanwhile, design and performance goals became moving targets that the contractors regularly changed.

The coastguard is now trying to correct its mistakes, but most of these are not easily undone. It is borrowing ships from the navy to cover for the remodelled 123-foot patrol boats that don't float. It intends to use its own bidding process to find replacements for the failed fast-cutter design. Procurement procedures have been sharpened. Most dramatically, on April 17th the coastguard announced that it is wresting control of Deepwater from the contractors, while the contract itself is being investigated by the Justice Department. But the hope of a unified set of equipment seems to have gone. And the flaws in some of the service's most important vessels, such as the National Security Cutter, will take years to correct.

At least Deepwater achieved one goal: the coastguard is now receiving plenty of attention. The Government Accountability Office, the federal government's budgetary supervisor, has released scathing reports. In the Senate, Maria Cantwell, a Democrat from Washington state, is holding hearings where the coastguard's admirals have been flame-broiled. She is also pushing a bill that would overhaul Deepwater's management. Mr Ellis remarks that the coastguard has long been the Boy Scout of America's armed services. It is now more like its drunken sailor.

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The Supreme Court

Conservatives resurgent

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An abortion ruling shows how the balance has shifted

THE Supreme Court handed America's beleaguered conservatives a rare victory on April 18th, by upholding a ban on an abortion procedure that is known, in medical circles, as D&X (dilation and extraction), and to most other people as “partial-birth abortion”.

The court ruled, by a majority of five to four, that the Partial Birth Abortion Ban Act, which Congress passed in 2003, does not violate a woman's constitutional right to an abortion. In so doing, it overruled no fewer than six federal courts; it also reversed an earlier Supreme Court decision, made in 2000, declaring Nebraska's ban on partial-birth abortion unconstitutional. The decision suggests that, although the court continues to uphold the central principle of *Roe v Wade*, which legalised abortion in 1973, it favours more restrictions.

George Bush's two court appointees, John Roberts and Samuel Alito, joined the long-running conservative duo, Antonin Scalia and Clarence Thomas, much to the relief of conservatives, who worry about Republican appointees turning into liberals once they reach the court. (One of George Bush senior's appointees, David Souter, is one of the most reliable liberal votes on the bench.) Ruth Bader Ginsburg penned a vigorous opinion for the liberal minority (Stephen Breyer, John Paul Stevens and Mr Souter himself). The decision was “alarming”, she said, and failed to take previous court decisions seriously.

The breakdown of the vote suggests that Anthony Kennedy is replacing Sandra Day O'Connor as the court's swing vote. Mr Kennedy argued in the majority opinion that the act's opponents “have not demonstrated that the act would be unconstitutional in a large fraction of the relevant cases.”

The ruling provoked a firestorm. Abortion-rights opponents claimed that it ended an abhorrent procedure. Abortion-rights supporters argued that it could threaten most abortions that are performed after 12 weeks of pregnancy. Planned Parenthood immediately put out a call for donations. The presidential candidates lined up in predictable order, with Hillary Clinton talking of “an erosion of our constitutional rights” and John McCain saying he was “happy”.

The decision is a vindication of the social conservatives' “slow squeeze” strategy on abortion. At first they focused on overturning *Roe*. Then they decided to adopt a more gradualist approach. They hedged the right to choose with various restrictions, such as parental notification, and concentrated on winning over middle-of-the-road voters. They have scored a particular success with “partial-birth abortion”, a grisly technique that involves partially removing the fetus from a woman's womb and then crushing or cutting its skull to complete the abortion.

The decision shows how much Mr Bush has done for social conservatives. His appointment of Messrs Roberts and Alito to the Supreme Court (both were nominated in 2005) may have shifted the balance of the court for a generation. The Bush era is set to last well beyond 2009 so far as one of America's most venerable branches of government is concerned.

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New York's transport

Tunnel vision

Apr 19th 2007 | NEW YORK
From The Economist print edition

The Second Avenue subway is still chugging, maybe

WAITING for a train can be excruciating. New Yorkers know that feeling well. They have been waiting 70 years for any new subway line—and even longer for the often promised and badly needed Second Avenue line. The subway network was built 100 years ago when much of New York was still farmland, and has hardly expanded in recent decades. It somehow manages to hit record ridership levels (on an average weekday, 5m souls cram in) while using antiquated and neglected tracks and tunnels.

Transit officials and politicians broke ground on the Second Avenue line in East Harlem with great fanfare last week. There have been four previous ground-breakings, the first in 1925 and the fourth in the mid-1970s. Nicole Gelinas, an editor of the Manhattan Institute's *City Journal*, has observed that each ceremonial dig with a spade has been followed by the city plunging into a financial crisis. The 1929 stockmarket crash halted plans. Construction was stalled 30 years ago because the city was on the verge of bankruptcy. Poor planning or lack of money seemed to go hand in hand with the proposed line.

Ah, but it is different this time, officials say. Now they have both the money and the political will. The federal government recently committed $1.3 billion, about a third of the project's start-up cost. There are four proposed stages. The Metropolitan Transportation Authority (MTA), the state agency that runs the subway, is still about $875m short; but construction crews are expected to start work on April 23rd. The first phase should be completed by 2013, and the line will eventually extend from Harlem's 125th Street to Lower Manhattan's Hanover Square, with 16 new stations. The whole project is expected to cost at least $17 billion.

Some people, like the Straphangers Campaign, a riders' advocacy group, worry that passengers will ultimately have to bear the cost. They are wise to be wary. The MTA has forecast unprecedented deficits over the next three years, up to $1.8 billion in 2010. Financial planning for the three later stages is still being worked out. Some wonder if work will progress beyond stage one.

New York City's growing population needs an efficient new railway. The Lexington Avenue line, the only Eastside subway train, has long been the system's most congested. It carries about 30% of all New York's straphangers. Meanwhile the M15 bus route, which operates along First and Second Avenues, is the busiest in the country, carrying 60,000 customers a day and operating every 90 seconds during the rush hour. It is hoped the first phase alone of the Second Avenue subway will decrease congestion by carrying some 200,000 commuters every week.

But not everyone is convinced this project is the best use of transport funds. A recent report by the city comptroller accused the agency of not spending enough money to keep its infrastructure from collapsing. An MTA internal memo revealed that the agency is over-budget on big projects by $1.4 billion. Potentially crippling cost increases could force the delay of “long overdue investments”. The Partnership for New York City, a group of chief executives, published a study in 2003 that found the proposed rail links to Manhattan from Kennedy Airport and the $2 billion railway-line extension to the Westside made more economic sense.

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Lexington

Sidelined by reality

Apr 19th 2007
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Kevin Kallaugher

The neocons are suffering one humiliation after another

THE American legal system has rediscovered the virtue of one of the most ancient forms of punishment—public humiliation. Prostitutes' "Johns" can now have their names aired on television. Mail thieves can find themselves wearing a sandwichboard giving full details of their crime. And people who deface Nativity scenes can end up parading through town accompanied by a donkey.

And neoconservatives? These too, it seems, are now being subjected to a grand exercise in public humiliation. Paul Wolfowitz is hanging on to his job at the World Bank by his fingernails (see article). Lewis "Scooter" Libby, a Wolfowitz protégé, is facing prison; Douglas Feith, who worked with Mr Wolfowitz at the Pentagon, is an "untouchable" who is floating around the margins of academia.

As for their patrons, Donald Rumsfeld, Mr Wolfowitz's patron, was sacked from the Pentagon amid accusations that he had lost the Republicans their majority. Dick Cheney is so unpopular that he has provoked protests even at Brigham Young University, a Mormon redoubt which is as conservative as they come. Conrad Black, one of the movement's most generous sugar daddies, is on trial for fraud. It seems that those whom the gods wish to punish they first make neocons.

Not all the neocons have been humiliated quite as badly as Mr Wolfowitz, let alone Mr Libby. Many of them—including Richard Perle, who is widely known as the Prince of Darkness, and David Frum, the man who co-coined the phrase "axis of evil"—are safely on board the starship American Enterprise Institute. Charles Krauthammer and Bill Kristol are as ubiquitous as ever in the media; indeed, Mr Kristol has been given a column in *Time* magazine to go along with his self-constructed platform at the *Weekly Standard*. Robert Kagan is in the middle of writing an ambitious history of American foreign policy.

And neoconservativism is not entirely finished as a political force. George Bush rejected the Baker-Hamilton report on Iraq, which favoured early withdrawal and diplomacy, in favour of the neocon-designed "surge". Elliott Abrams is a deputy at the National Security Council. Mr Cheney is proving no more destructible than Lord Voldemort. John McCain is blowing loudly on the neocon trumpet; Rudy Giuliani, having flirted with "realists", has decided to stick with neocon foreign-policy advisers.

But the movement's implosion is nevertheless astonishing. One neocon sums up the prevailing mood in the movement. The neocons are a "laughing stock". Their "embrace of power" has been "a disaster".

Once upon a time they commanded an audience among Arab democrats and European conservatives. But now they cannot make themselves heard above the din of criticisms of Iraq. The “surge” is a desperate response to failure. Many people see Messrs Kristol and Krauthammer as exhibits in a Ripley's Believe It or Not exhibition: they marvel that they can ever have been so influential, rather than want to follow their advice again.

The neocons are being relentlessly marginalised in Washington. Condoleezza Rice is returning to her “realist” roots at the State Department, now that Mr Rumsfeld is out of her hair and Mr Cheney is weakened. She has embraced “shuttle diplomacy” in Israel-Palestine, signalled her willingness to talk to Syria and Iran, and has even been polite about the United Nations. The rising generation of policy intellectuals regards a reputation for neoconservatism as professional death.

They are also being marginalised—or at least slapped down a bit—within the conservative movement. The “paleocons” have always disliked the neocons, sometimes (disgracefully) just because they are Jewish. But now they are being joined by conservatives of almost every other stripe. Realists dislike them for their destabilising foreign policy. Small-government types dislike them for their indifference to government spending. Libertarians dislike them for their preoccupation with using the state to impose virtue. Neoconservatism could well return to where it started—the intellectual property of a handful of families called Kristol, Podhoretz and Kagan.

Why does the movement seem so discredited? Partly for practical reasons. They misread intelligence about WMD and links between al-Qaeda and Saddam (though some still believe in both notions). They bungled the war in Iraq. They had little real experience of either the Arab world or soldiering. Many of them were even poor managers. Gary Schmitt, a fellow neocon, complained of Mr Feith that he “can't manage anything, and he doesn't trust anyone else's judgment”. General Tommy Franks describes him as the “dumbest fucking guy on the planet”.

Betraying the founders

But, more important, neocons have been discredited for ideological reasons. Most of the recent mistakes can be traced back not just to flawed execution but to flawed thinking. The neocons argued that democracy might be an antidote to the Middle East's problems: but democracy proved too delicate a plant. They claimed that the assertion of American power might wipe out “Vietnam syndrome”: but it has ended up making America more reluctant to intervene abroad. They talked about linking American power with American ideals: but it turned out, at Abu Ghraib and Guantánamo, that power can corrupt those ideals.

The tragedy of neoconservatism is that the movement began as a critique of the arrogance of power. Early neocons warned that government schemes to improve the world might well end up making it worse. They also argued that social engineers are always plagued by the law of unintended consequences. The neocons have not only messed up American foreign policy by forgetting their founders' insights. They may also have put a stake through the heart of their own movement.

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Ecuador's Rafael Correa

Tightening his grip

Apr 19th 2007 | BAÑOS AND QUITO
From The Economist print edition

Reuters

After Presidents Chávez in Venezuela and Morales in Bolivia, another president in the Andes seeks sweeping powers to remake his country's politics

Get article background

THE whole town, it seems, has turned out to watch Rafael Correa and his “itinerant cabinet” follow a donkey around. The donkey, named Alonso and festooned with slogans, leads a long motorcade in a U-shaped path around the centre of Baños, an Ecuadorian mountain resort of some 20,000 people. Three months into his term as Ecuador's president, Mr Correa has taken to travelling around the country, every three weeks or so, dragging a good portion of his cabinet secretaries along with him, in an attempt to bring government closer to the people.

This is just one of the populist measures the former finance minister has adopted since coming to power. Cash transfers to 1.3m of the country's poorest people (out of a total population of 13.4m) have been doubled to $30 a month. A further $100m has been allotted to housing subsidies for the poor. Grants of $350, which are described by the government as “microcredit”, are dished out with abandon. Some $3 billion a year goes on public subsidies for domestic gas, petrol and electricity. Education and health spending have been increased substantially. And, in a move of dubious legality, more than half of Congress has been sacked by the Supreme Electoral Tribunal (TSE), a body that supports Mr Correa.

The president was visiting Baños a few days before April 15th's referendum on his plan to set up a “constituent assembly” to write a new constitution. He did not give any speeches to the waiting crowds. He didn't need to. Here, as in the rest of the country, the people already adore their young and handsome president. The day before the vote, the news came out that his father had spent three years in prison for drug-smuggling when Mr Correa was a child. But this appears to have had little effect on the referendum, which required a majority of the vote cast for the measure to pass, but attracted a yes vote of over 80%. Only 12% voted against, while a further 6% submitted null or blank ballots (compared with the usual 20-30%).

Mr Correa has clearly struck a chord among the masses in Ecuador. When he says that “happiness, hope and faith” are returning to the country, he is not wholly wrong. But is that hope well-placed? It is hard to find an independent political observer who thinks so. Simón Pachano, a professor at Flacso University in Quito, agrees that changes are necessary but that a constituent assembly is the worst possible way to achieve it. The 134 members of the new assembly, to be chosen in a nationwide vote, are under orders to transform the state's “institutional framework” and write a new constitution within 180 days

(extendable by a further 60 days). This will then be put to another nationwide referendum.

The assembly has been endowed with “full powers”, suggesting that it can do pretty much what it likes. Fernando Santos, a former cabinet minister, notes wryly that it could get rid of Congress and crown the president “Rafael the First of the House of Correa”. As the normal checks and balances, such as they are, will not apply to the new assembly, much will depend on its composition. Mr Correa's supporters cannot be guaranteed a majority: several former presidents, such as Lucio Guttiérez and Osvaldo Hurtado, are already positioning their factions. But if Mr Correa does gain sway over the new assembly, he will have complete control over Ecuador.

Foreign investors and the moneyed classes are worried. Capital flight has increased substantially in the last few months. Last year's expropriation of Occidental Petroleum, previously Ecuador's largest foreign investor, has added to their concerns. This was carried out by the former president, but Mr Correa defends the action. Occidental has appealed to the International Centre for the Settlement of Investment Disputes, an international arbitration body. It is expected to rule in favour of the American oil giant early next month, and to order Ecuador to pay damages of $1 billion-$2 billion. That is a large chunk for a small country whose tax revenues totalled just $4.5 billion last year, with a similar amount coming from oil. Mr Correa might refuse to pay, but this could provoke sanctions.

On arriving in office, Mr Correa railed against paying Ecuador's foreign debt, driving down the market for sovereign bonds. But in February he made a sudden payment of $135m, leading to suspicions that speculators linked to Venezuela had benefited from the government's indecision. Despite his friendship with Venezuela's president, Hugo Chávez, however, Mr Correa has not hesitated to make moves that could discomfort his oil-laden neighbour. Earlier this month, he signed a deal with Brazil to co-operate in the production of ethanol. Meanwhile, Petroecuador, the Ecuadorian state oil company, has signed a memorandum of understanding with Petrobras, Brazil's state oil company, to exploit ITT, an oilfield representing around a quarter of Ecuador's total oil reserves.

But more than his public spending and other populist policies, it is the growing strength of the president's grip on power that is giving cause for alarm. Last month's ousting, with his blessing, of 57 opposition members of Congress, for seeking to sack the TSE's president in an attempt to block the referendum, is particularly ominous. Though the congressmen were replaced by alternates they themselves had picked, the new deputies have shown themselves loyal to Mr Correa rather than to their own political parties.

This can be explained in part by the president's undeniable charisma. In the town of Pingue, shortly before reaching Baños, Mr Correa attended a gathering of refugees made homeless by the eruption of the Tungurahua volcano a year ago. A big man with the build of a rugby player, Mr Correa sat on the ground to watch schoolchildren perform a play. He then picked up a little girl in his arms and danced with her. She looked delighted. The next day, in Baños, he announced, to rapturous applause, the end of the country's “long dark night of neoliberalism”. All very thrilling—depending on what arrives with the dawn.

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Canada

A winter of Liberal discontent

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From The Economist print edition

The Liberals' new leader fails to boost the party's flagging fortunes

WHEN Stéphane Dion won the leadership of Canada's Liberals last December, the party faithful knew he had his faults: a poor command of English, a reputation for being inflexible and no real appetite for the cut and thrust of political battle. But with the opinion polls at that time showing the party within striking distance of Stephen Harper's minority Conservative government, Liberals were confident that even an imperfect leader could topple the Tories and restore them to their rightful place in charge of Canada, which they had run for more than a dozen years until 2006.

Reuters

Exit Stronach, one of many leaving the listing ship

Almost five months after choosing their new leader, that confidence has evaporated, and many Liberals are questioning whether they picked the right man. The expected boost in voter support has not come about. Indeed, the most recent poll shows that 42% of voters deem Mr Harper the best national leader and a mere 17% back Mr Dion. The Liberals' only consolation is that the Conservatives' comfortable lead is not yet big enough to assure them a parliamentary majority in the event of a new election. But that is thin comfort. The unhappiness inside Liberal ranks burst into the open last weekend when a former prime-ministerial spokesman, Ray Heard, told the *Toronto Star*, Canada's bestselling newspaper, that he supported a move to dump Mr Dion “before it's too late”.

That outburst was triggered by a peculiar deal Mr Dion made with Elizabeth May, the leader of the Green Party. He promised not to run a Liberal candidate against her in the Nova Scotia constituency where she would otherwise stand only an outside chance of winning the Greens their first seat. In return, Ms May promised not to run a Green candidate against the Liberal leader in his safe Montreal constituency. Mr Dion, a former environment minister, portrayed the deal as a non-partisan gesture designed to give the increasingly popular green agenda more prominence. But, as bewildered Liberals pointed out, their own party gained nothing, and Mr Dion had made it look as though only a fringe party was entitled to care about the environment. The deal was all the stranger given Mr Dion's own reputation as an ardent green, albeit in a party that did little for the environment during almost 13 years in power.

A few days earlier, the Liberals had lost one of their most glamorous politicians. Belinda Stronach, whose wealth, looks and romances made her the closest thing the party had to a celebrity, declared that she was leaving politics to return to Magna International, a car-parts company controlled by her father. Though derided by many as an opportunist—she left the Conservatives two years ago after unsuccessfully contesting the party leadership—Ms Stronach attracted attention, money and votes to a party in need of all three.

The Liberals' malaise seems to go deeper than one miscalculation by Mr Dion over green politics and the loss of a high-profile MP. A further 14 of the 103 Liberals who won parliamentary seats in the January

2006 federal election have likewise decided not to stand again. This comes on top of three defections: two to the Conservatives and a third who has chosen to sit as an independent. A changing of the guard is no bad thing in a political party, but when quite so many of its MPs decide to abandon national politics it suggests they do not expect imminent re-election and a job in government.

It is too early to write Mr Dion off. Jean Chrétien went through a similar rough patch when he became Liberal leader in 1990, but went on to win three successive general elections, starting with the slaughter of 1993 in which the Conservatives were scythed down to two seats. Mr Dion could still turn opinion by exploiting a reputation for integrity and intelligence. This, however, will take time that he may not have. Mr Harper is eager to convert his minority government into a majority. If his poll numbers edge higher, it will not be long before he calls a new election—whether the Liberals are ready or not.

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Colombia

The plot thickens, again

Apr 19th 2007 | BOGOTÁ
From The Economist print edition

The “parapolitics” scandal edges closer to President Uribe

IS HE a doughty reformer, delivering a safer Colombia while allowing sunlight at last to illuminate the dark corners of the country's bitter three-way war in the 1980s and 1990s between the state and armed groups of the left and right? Or was he secretly in collusion with the right-wing paramilitaries all along? The controversy about President Álvaro Uribe took a new turn on April 17th when Gustavo Petro, an opposition senator, spent two hours putting new allegations in front of the Senate. But for the present, the quarrel seems bound to swirl inconclusively on.

Basing his accusations on government documents and affidavits by former military officers and militia members, Mr Petro claimed that illegal paramilitary groups had used two Uribe family farms in Antioquia as meeting places when Mr Uribe was governor of the north-western department in 1995-97. “From there, at night, they would go out and kill people,” Mr Petro said, referring to the president's Guacharacas ranch, where his father was murdered by leftist rebels in a botched kidnap attempt in 1983. As governor, said Mr Petro, Mr Uribe had also approved legal vigilante groups, collectively known as Convivir, some of which were later transformed into paramilitary death squads or served as fronts for paramilitary warlords.

The government has vigorously denied the allegations. Accusing the left-wing senator of using court documents selectively, Carlos Holguín, the interior minister, said that all manner of rumours had arisen about the Uribe farms and that nothing had been proved. The following day Mr Petro himself seemed to backtrack a little when he told a local radio station that he had not intended to accuse the president of anything other than of “letting his guard down” with regard to the paramilitaries.

Colombia is embroiled in one of its biggest political scandals in decades as increasing revelations are made about collaboration and collusion between government officials and politicians and the outlawed right-wing militias. So far, eight pro-Uribe congressmen, a governor and the president's former top intelligence chief have been arrested. Nearly 20 other current or former members of Congress, most of them allies of the president, are being investigated by the Supreme Court and the attorney-general's office.

Antioquia is often called the heartland of the right-wing militias, which grew dramatically during Mr Uribe's time as governor, spreading to other regions in the late 1990s. Critics of the president say he did little to stop their growth. But Mr Uribe claims that he has fought all of Colombia's armed groups, and strongly denies any links to the paramilitaries, which were created by drug-traffickers, landowners and parts of the army to fight leftist rebels but evolved into drug-trafficking mafias, conducted massacres and used intimidation to export wealth and power.

Under a peace deal more than 31,000 paramilitary fighters have laid down their arms in return for reduced sentences if convicted of any atrocities. The first trials are now under way. Mr Uribe retains the support of most Colombians for having reduced violence. But the country is still only at the start of a twisting path to peace.

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Dengue fever

A deadly scourge

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From The Economist print edition

Millions at risk as a new outbreak of dengue fever sweeps Latin America

THERE is no vaccine. There is also no good way to treat it—just fluids and the hope that the fever will break. At first it seems like a case of severe flu, but then the fever rises, accompanied by headaches, excruciating joint pain, nausea and rashes. In its most serious form, known as dengue haemorrhagic fever (DHF), it involves internal and external bleeding and can result in death. Fuelled by climate change, dengue fever is on the rise again throughout the developing world, particularly in Latin America.

Mexico identified 27,000 cases of dengue fever last year, more than four times the number in 2001. In El Salvador, whose population is not much more than 6% of Mexico's, the number soared to 22,000 last year, a 20-fold increase on five years earlier. Uruguay recently reported its first case in 90 years. In Brazil, 135,000 cases were diagnosed in the first three months of this year, a rise of about a third over the same period last year. Paraguay, the country worst affected in relation to population size, has reported more than 25,000 cases so far this year, six times the total for the whole of last year—and even this is probably an underestimate.

According to the World Health Organisation, dengue is now endemic in more than 100 tropical and sub-tropical countries around the world, affecting some 50m people a year, mostly in urban or semi-urban areas. A further 2.5 billion, two-fifths of the world's population, are considered “at risk”. About 500,000 people, many of them children, are believed each year to develop a form of DHF serious enough to require treatment in hospital. Worldwide, 2.5% of DHF cases die; without proper care, the proportion can exceed 20%.

Anyone who survives an infection by one of the four viruses that cause the disease gains lifelong immunity from that virus. But subsequent infection by another variant increases the risk of developing DHF, which is becoming much more common in Latin America. In Mexico, for example, just one in 50 cases was haemorrhagic six years ago, says José Ángel Córdoba Villalobos, Mexico's secretary of health. Now one in five is.

Last year just over 500,000 cases of dengue were reported in Latin America, including more than 14,000 haemorrhagic cases, 187 of which resulted in death. This year nearly 200,000 dengue cases have already been reported, including 2,693 cases of DHF. At least 37 people have died, including 11 in Paraguay and 17 in Brazil.

The dengue viruses are transmitted to humans through the bite of a female *Aedes* mosquito, which acquires the viruses while feeding, normally on the blood of an infected person. Given that there is no known preventive treatment or anti-viral cure, the only practical way to prevent the viruses' spread is to eliminate the *Aedes* mosquitoes by preventing them from breeding.

In Mexico, the house-to-house programme mounted by the government to get people during the rainy season to remove rubbish and standing water where mosquitoes breed has been extended year-round—with some success. The number of dengue cases reported this year is well down on last year, but the rainy season—the main breeding time for the mosquitoes—has yet to come.

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Corruption in China

Not the best way to clean up

Apr 19th 2007 | BEIJING
From The Economist print edition

Claudio Munoz

Despite worries about the damage corruption does to the Communist Party's reputation, efforts to stamp it out remain half-hearted

Get article background

CORRUPTION, Chinese officials often fret out loud, could destroy the Communist Party—such is the popular anger it provokes and so at odds is it with the ideals the party espouses. Yet frequent crackdowns and the occasional toppling of sleazy officials appear to have little impact. Nor, many fear, will a new anti-corruption agency, due to be set up this year. As they jockey for position before a crucial party gathering in the autumn, China's leaders are in no mood for serious reform.

In Shanghai and Beijing, where big corruption scandals involving top officials have been exposed in recent months, new cases of alleged high-level wrongdoing are still coming to light. In Beijing the state-owned media reported last week that Zhou Liangluo, the chief of Haidian district, home to many of the city's universities and high-tech companies, had been detained for allegedly engaging in shady property deals. In Shanghai it emerged earlier this month that Yin Guoyuan, a former deputy head of the housing bureau, was being investigated for similar reasons.

Despite the anxious rhetoric, the party is not on the brink of collapse. But the scandals of the past few months have stoked debate within its ranks and more widely in China about the need for better ways of dealing with corruption. Officials have been studying anti-corruption agencies elsewhere, notably in Hong Kong and Singapore, which rate highly in regional league tables of clean government. Singapore's authoritarian tendencies and Hong Kong's lack of democracy make them, for some Chinese officials, especially appealing models.

In the build-up to a five-yearly party congress due later this year, Chinese leaders have been stressing the need to build a “harmonious society”. Making officials more honest is portrayed as vital to this endeavour. The congress will be the first presided over by Hu Jintao, state president as well as head of the party, as China's paramount leader. It will be an important opportunity for him to promote his supporters and show what he has achieved in five years in power. But when it comes to tackling corruption, Mr Hu is hesitant about changing the system.

Few are impressed by plans revealed in February to set up a Corruption Prevention Bureau. Its remit remains unclear, but Ren Jianming of Tsinghua University in Beijing believes it will not have investigative powers. It will probably report to the Ministry of Supervision, responsible for standards in the bureaucracy, or directly to the State Council, China's cabinet. But Mr Ren says the party's own anti-corruption agency,

the Central Disciplinary Inspection Commission (CDIC), will still decide which top officials should be investigated and punished.

Officials say that the new bureau will help China fulfil its obligations under the United Nations' 2003 convention against corruption, which requires signatories to have a corruption-prevention agency. The convention is vague about what this body should do, but says it should be able to operate “free from any undue influence”. Chinese officials have not spelled out how this will be attempted.

In the past five years, Mr Hu has done little to make the CDIC less vulnerable to the whims of party leaders. The CDIC's action last September against Shanghai's Communist Party chief, Chen Liangyu, led to his arrest, dismissal and suspension from the Politburo for alleged misuse of pension funds. But it raised suspicions that Mr Hu was using the commission to settle scores with a rival party faction. Mr Chen was replaced last month as Shanghai's party chief by Xi Jinping, who is close to Mr Hu. Mr Xi, like a sprinkling of other senior Chinese officials, is the offspring of one of communist China's founding fathers. Such “princelings” are on the rise.

Some of China's bolder newspapers have hinted that Mr Hu could be doing more to clean things up. They have noted that Vietnam—hardly a model of clean government—last month issued a decree requiring legislators and senior officials to declare their assets. China imposes no such burden on legislators; officials are subject only to patchily and secretively enforced requirements to report their incomes. Officials have brushed aside proposals by some members of China's parliament for a law aimed at ensuring better compliance. Frustration with official corruption is one reason why most of China's high earners ignored a new rule requiring them to fill out personal income-tax returns by the beginning of this month.

Despite an occasional combative streak, the media hardly ever report corruption cases without official approval. It was only this month that they reported the arrest by investigators last August of Zhang Weihua, the deputy head of a state-run lottery intended to raise money for sports, including for facilities for next year's Olympic Games in Beijing. An audit in 2005 found that the lottery had diverted 558m yuan ($72m) into subsidiaries, which paid some of the money as bonuses to staff.

Mr Hu has tweaked the system a bit. In recent months, during a shuffle of provincial leadership posts, he managed to ensure that discipline-inspection commissions in the provinces are led by CDIC officials from Beijing, or by anti-corruption officials from other provinces. In the past these roles have usually been filled by placemen of the provincial party chiefs, rendering them useless in investigating corruption cases involving the top echelons of the party. Even so, the impact of the reform may be limited. According to the party charter, provincial commissions must still inform local party leaders if they plan to investigate them for corruption.

The prime minister, Wen Jiabao, has been forthright, at least in admitting the extent of the problem. At a news conference last month, he said that corruption had been getting “more and more serious”, a departure from the party's usual line that its clean-up is having some success. Mr Wen must have bitten his tongue. In the official transcript published by the Chinese press, his remarks were more cautious: corruption was only “quite serious” in some places and departments. The media did report his unoriginal but far-reaching suggestion that one remedy would be more political reform. But there is little sign that Chinese leaders are eager to pursue that.

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AIDS in China

Double jeopardy

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A misguided scheme to segregate HIV-positive prisoners

"BRANDISHING blood-filled AIDS syringes to carry out hold-ups," shrieked *Oriental Outlook*, a state-owned national weekly, painting a lurid picture of an alleged new type of Chinese criminal. "HIV/AIDS crime is now a constant anxiety for police everywhere," it concluded. The anxiety persists once the criminals are caught. The article also revealed a plan to test prisoners for HIV and segregate HIV-positive inmates.

Confirming the plan's existence, Hao Yang, of the Ministry of Health, defends it for allowing better care for AIDS sufferers. A scheme was launched in 2003 to give universal access to the anti-retroviral drugs that can contain the disease. It has yet to cover the whole country, but prisoners in the areas it has reached might benefit.

Estimated at around one in 2,000, HIV prevalence among the general population in China is still low by international standards. But infections are increasing by 11% a year, because of massive internal migration to cities and an associated boom in prostitution.

There are no national figures for infection rates within the prison system. However, Jing Jun, a sociologist and expert on HIV/AIDS, thinks the hysteria about "AIDS criminals" is "ridiculous". He blames widespread ignorance about AIDS for causing panic among the police and prison staff. Only one police academy in China—in Yunnan in the south-west, the first province to experience a serious AIDS problem—provides systematic education about HIV to its cadets.

Public-security officials suffer from the misperceptions about AIDS common in China. A survey conducted in seven Chinese cities in late 2005 by Horizon Research, a Beijing-based consultancy, found that more than two-thirds of respondents thought you could catch AIDS by sharing a toilet or bath.

In most countries it is now accepted that the best way to stop AIDS spreading in prisons is the same as in the world outside: through education, voluntary testing and easy access to treatment and the means of protection. Although some American states segregate HIV-positive prisoners, no European countries do. A United Nations report in 2006 rejected mandatory testing and segregation as a means of prevention. It argued that the fear of HIV/AIDS, often driven by the belief it could be spread by casual contact, "often places HIV-positive prisoners at increased risk of social isolation, violence, and human-rights abuses from both prisoners and prison staff."

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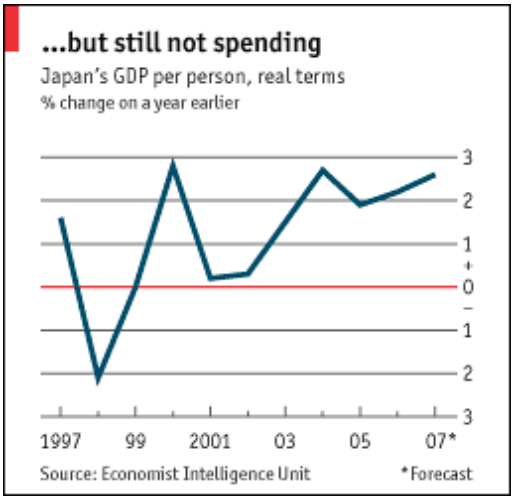
Japan's economy

Over to you, big spender

Apr 19th 2007 | TOKYO
From The Economist print edition

Reasons to expect a consumption boom

Get article background



IF JAPAN'S economy has been pulled steadily out of the slough into which it had fallen for more than a decade, Japan's corporate sector has been doing almost all the pulling. Ever since the recovery that began tentatively in 2003 started to look solid, economists have predicted that households would soon take over the running, by starting to spend again after years of deflation and tightened belts. Yet every prediction of a consumption boom has proved premature, causing some to question the sustainability of the recovery as a whole. In February deflation, which last year had been declared vanquished, even made an unwelcome return.

The corporate recovery, at least, has been remarkable. Companies have repaid huge amounts of debt incurred during the 1980s and 1990s. Demand for Japanese goods from overseas, notably China, gave the initial boost to company profits, which have grown for four consecutive years to record levels. Companies have ploughed back much of the cash they have earned into investment to replace neglected capital stock, from factory machines to computers to buildings. The latest quarterly Tankan survey of business prospects carried out by the central bank, the Bank of Japan, suggests that the recovery in capital expenditure is now spreading from big manufacturing companies to smaller ones, and from manufacturing into services. But sooner or later Japanese companies will have finished most of their upgrading, and worries about the American economy are growing among Japanese exporters, led by carmakers. The government also wants to cut its huge fiscal deficits: wise, perhaps, but this will dampen overall demand. All reasons to hope households will spend more.

The oddity is that they have not so far, at a time when companies have been eager hirers: unemployment has fallen to just 4%. The scramble among companies for the new graduates who began work this month made a stark contrast with the fate of unemployed graduates a few years ago. But flat consumption is explained by stagnant wages—indeed, in January and February total cash wages per worker actually fell by 1.1% compared with a year earlier.

Globalisation, combined with technological change, exerts downward pressure on wages. But other explanations are plausible. Jobs are shifting from manufacturing to lower-paid services. And younger workers, replacing a huge cohort of baby-boomers due to retire over the next three or four years, cannot command the salaries of their well-paid, portlier elders.

But wages—and hence consumption—must now be likely to grow. A further fall in the unemployment rate would bring it closer to the point where wage pressures accelerate. Goldman Sachs, an investment bank, puts that critical point at unemployment of 2.5-3.5%, a range it expects to be reached towards the end of the year. Many newly hired workers were people who earlier this decade gave up hope of finding a job and who cannot afford to be too fussy now. But this return of “discouraged” workers may nearly have run its course.

What is more, companies have since 2005 once again been hiring more permanent workers than those on part-time contracts. Permanent workers get paid more. For instance, they are eligible for annual bonuses, which typically account for one-fifth of income. Bonuses are on the rise.

Moreover, thanks to those baby-boomers, retirement payments by companies, including traditional lump sums to the newly retired, are set to jump—from around ¥10 trillion ($84 billion) last year to ¥13.5 trillion in the fiscal year that began this month. Goldman Sachs guesses that will boost consumption by 0.3

percentage points a year. Camera shops, sellers of weekend fishing-boats and even restaurants report brisk business. Baby-boomers want to enjoy their coming leisure.

As for the return of deflation, there may be little cause for alarm. Prices fell in February by 0.1% compared with a year earlier, when measured by “core” consumer prices that include energy but exclude fresh food. But the fall was chiefly thanks to a drop in the price of oil-related goods and mobile-phone costs—hardly unwelcome trends to consumers. Besides, the official inflation measure is skewed downward by an unrepresentative calculation of housing costs. Elsewhere, price increases are spreading through service industries as demand slowly grows. Japan's newly confident consumers may at last be about to make their presence felt.

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Bangladesh

No going back

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The army exiles the country's leading politicians

AFP

Get article background

ENDING an era in Bangladeshi politics dominated by the two mutually-loathing heads of feuding dynasties, the generals behind the interim administration this week exiled them both. On April 17th, Khaleda Zia (pictured left), leader of the Bangladesh Nationalist Party (BNP) and prime minister until October 2006, agreed to go into exile in Saudi Arabia—which also took in another exiled former prime minister, Pakistan's Nawaz Sharif. The next day Mrs Zia's nemesis, Sheikh Hasina Wajed, prime minister from 1996 to 2001 and leader of the Awami League, the other big party, was declared a “national-security risk” and barred from Bangladesh.

Mrs Zia had, in effect, succumbed to blackmail over the fate of her two sons, both facing corruption charges. Her departure, accompanied by her younger son, was said to be imminent. Her firstborn, Tareque Rahman, is in jail as the main trophy for the army's anti-corruption drive and unlikely to go anywhere. Sheikh Hasina, who was in America, had threatened to come back to Bangladesh on April 23rd to fight murder and corruption charges. Immigration posts were told not to let her in.

With their leaders exiled, the two main political parties face leadership vacuums, after 16 years in which the two bickering “begums” alternated in power in this country of 150m people. The parties are crippled, with many senior members in jail. Prosecutors are, in effect, choosing the parties' leaders for them. Last week, for example, saw the arrest of Moudud Ahmed, a close confidant of Mrs Zia and in the popular mind the “BNP's brain”. The army said it found alcohol and more than 200 *saris* meant for government relief operations for the poor in Mr Ahmed's bedroom.

So pervasive and debilitating is the corruption in Bangladesh's public life that the army's drive is still popular. Fakhruddin Ahmed, head of the interim government installed by the army, has promised a “beautiful Bangladesh” without militancy, intolerance or Islamic extremism. Sadly, this seems a pipe-dream.

Foreign diplomats in Dhaka still give his administration the benefit of the doubt. Mr Fakhruddin has promised a parliamentary election by the end of 2008. But the good intentions of his overstretched interim government matter less than a power struggle in the army. The term of the army chief, General Moeen U Ahmed, expires in June 2008. His main adversary, and probable successor, General Masud Uddin Chowdhury, is widely seen as the driving force behind the state of emergency imposed on January 11th.

With troops on the streets for months, and no end to their deployment in sight, frustration among army officers has been mounting. Senior ones know that a return to civilian politics would probably cost them

their jobs. Nor are they likely to back General Moeen, whose time is running out. Rumours of a counter-coup led by General Masud surfaced on March 26th, Bangladesh's independence day. They proved unfounded. But events since have not dispelled the impression of disunity within the armed forces.

The legal cover for the administration the generals are backing is wearing thin. The initial 120 days of emergency rule allowed under the battered constitution expire on May 10th. But the state of emergency can be extended, and there seem few other options. The big parties are in shambles. Muhammad Yunus, a Nobel-prize-winning microcredit pioneer, seen as a potential saviour earlier this year when he announced plans to enter politics and launched a new party, has walked off the pitch. Already there is talk in Dhaka that the army might form its own civilian party—or not bother with such niceties and declare outright martial law.

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North Korea

Time to party

Apr 19th 2007 | PYONGYANG
From The Economist print edition

A victory to celebrate?

AP

Happy birthday, Mr President

Get article background

NO ONE mentioned nuclear deadlines as thousands gathered in the centre of Pyongyang on April 15th to celebrate the late Great Leader's 95th birthday. A sea of women in flowing national costume in vivid colours converged on floodlit Kim Il Sung Square, in an orchestrated display of joyful celebration. But American nuclear negotiators were not in a party mood.

North Korea had calmly reneged on its promise to close down its main nuclear reactor by April 14th, to invite United Nations inspectors to verify this and to share details of its nuclear projects with the five other countries (America, China, Japan, Russia and South Korea) involved in efforts to dismantle its nuclear-weapons programme. Asked about the deadline, Pyongyang residents expressed mild surprise and polite interest. The South Korean press reported this week that spy satellites had detected a flurry of activity at the Yongbyon nuclear plant. But the Americans said they had received no word that shutdown procedures were under way.

The North Koreans have offered no explanation. The Americans said on April 10th that North Korea was now free to withdraw some $25m deposited in North Korean accounts at a bank in Macau, Banco Delta Asia (BDA). The funds were frozen in 2005 because of American suspicions that the accounts were used for money laundering and other illegal dealings. North Korea had insisted that the accounts be unblocked before progress could be made on the nuclear issue. But it appears in no hurry to gain access to them.

In Pyongyang, where Western journalists' contacts with ordinary citizens are tightly controlled, those allowed to speak suggested their country had won a victory over the Americans, and that they felt much safer now that it had conducted a nuclear explosion. Others said the Americans had to fulfil their promises before North Korea would fulfil its own. Under a deal reached in February between the six countries, North Korea was supposed to begin receiving aid to the value of 50,000 tonnes of fuel oil “in parallel” with the closure of the Yongbyon facilities. This has not happened either.

Militant posters line the road: in one, a giant fist crushes a group of tiny American soldiers. Others feature missiles and battle-ready soldiers. “We are very strong and others are afraid of us now,” says an official guide. But residents do not appear to be readying for a showdown. Nor do the Americans. In Washington and other capitals the response to the missed deadline has been one of mild rebuke. North Korea's dilly-dallying, it seems, is only to be expected, especially when it has a birthday to celebrate, even a dead man's.

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Politics in Thailand

Battles ahead

Apr 19th 2007 | BANGKOK
From The Economist print edition

Now the hot season really begins

Get article background

DURING the Songkran (new year) festival, which ended this week, Thais throw water at each other to cool off during the warmest part of the year. Politically, the end of the holidays may herald an even hotter season. A peaceful return to democracy, with elections in December, as the military-backed government promises, is possible. But mass street protests, as seen before last year's coup, are likely to return, and may have nasty consequences.

People's Television, a group of supporters of the deposed prime minister, Thaksin Shinawatra, plans big anti-coup demonstrations. It is taking to the streets after the government blocked its pro-Thaksin satellite channel. Across the political divide, the People's Alliance for Democracy, which ran last year's anti-Thaksin rallies, came back to life this month and threatens protests if the junta breaks its promise to root out Thaksinism.

One catalyst for conflict is a new constitution, the first draft of which, written by a group largely chosen by the generals, was completed on April 17th. The draft will be debated publicly, fine-tuned, then put to a referendum in September. Pro-democracy groups are angry because, among other things, it proposes replacing the elected Senate with one chosen by a panel of judges and bureaucrats.

There is the graver risk, for the junta, of voters treating the referendum as a plebiscite on their stumbling government, led by General Surayud Chulanont, the prime minister. Many rural Thais still support Mr Thaksin. The fickle urban elite, many of whose members welcomed the tanks last September, has lost faith. Political tension has weakened the economy and accusations of graft and nepotism by junta members have surfaced.

The junta might scrap the referendum if it expects to lose it, reckons Thitinan Pongsudhirak, a political scientist. If it then tries to impose a constitution of its own choosing, this may create more trouble. Mr Thaksin's Thai Rak Thai party says the generals are actually courting trouble, as an excuse to cling to power.

Anti-Thaksin groups suspect that General Surayud is seeking a deal with Mr Thaksin that would let him off with no more than a temporary ban from politics and some tax-dodging fines in return for not making trouble. Such suspicions mounted this month when prosecutors dropped charges against Mr Thaksin of *lèse-majesté*—an important pretext for the coup. These charges may have been dropped, however, less to appease Mr Thaksin than to protect Thailand's international standing from the consequences of bringing another such *lèse-majesté* case so soon after a Swiss man was jailed (then pardoned) for defacing the king's portrait.

General Surayud did not want to be prime minister and was not the junta's first choice. It seems to have lost whatever confidence it had in him; when he briefly checked into hospital on April 9th, he appeared to be checking out of office. But the flowers the king sent him were seen as royal encouragement to soldier on.

The coup was the last chance for the army's royalist old guard, led by General Prem Tinsulanonda, the king's chief adviser, to remove Mr Thaksin before he replaced them with his own cronies. But the former prime minister has not yet been knocked out and the struggle continues. General Surayud may want peaceful compromise but this, Supavud Saicheua, an analyst at Phatra Securities, noted this week, is like asking two boxers who dislike and mistrust each other to fight a championship bout without hurting each other, and then to agree to call it a draw.

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Indonesia

School of hard knocks

Apr 19th 2007 | BANGKOK
From The Economist print edition

How not to train civil servants

NINE years after the fall of the authoritarian Suharto regime in Indonesia, the country is democratic but many institutions remain unreformed, not least the army and police. Perhaps the most bizarre relic of the past is the Institute of Public Administration (IPDN), a national training college for civil servants in West Java. Inexplicably, this is still run, as it was under the old regime, like a military boot-camp—with uniforms, drill routines and violent rituals inflicted on novices by their seniors—as if its mission were to turn out paratroops, not pen-pushers.

The latest in a series of violent deaths at the college has outraged public opinion. The college's bosses said first that Cliff Muntu, a 21-year-old student, had died of liver failure. An autopsy found he died of massive injuries all over his body, caused by blunt objects. He is said to have been beaten senseless after making a blunder during a flag-raising ceremony. Police have questioned a dean they think may have forged Mr Muntu's death certificate, and students suspected of killing him. After the truth about his death emerged, one man who had taught at the college since 1993 was briefly suspended for telling the press that 17 other students had died suspiciously over that period and that their deaths had been covered up.

President Susilo Bambang Yudhoyono has ordered an inquiry and stopped the college from admitting new pupils for now. But he is under great pressure from parliament to close it altogether. The institution's problems can hardly have come as a shock. At its past two graduation ceremonies, Mr Yudhoyono made fine speeches calling for an end to IPDN's culture of violence but then, typically, did nothing.

There seems no reason to keep IPDN open. The 150 billion rupiah ($17m) a year it costs certainly does not produce an efficient civil service: ask any Indonesian taxpayer. Asep Suryahadi of SMERU, a think-tank in Jakarta, notes that similar courses in public administration are anyway offered by many Indonesian universities—without the militarism and thuggery. Nevertheless, despite the college's reputation, it has no shortage of applicants. In a country where unemployment is high, students prize its guarantee of a civil-service job on graduation—if they survive that far.

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Tigers

Market failure

Apr 19th 2007 | KATHMANDU
From The Economist print edition

Breeding tigers in farms for their parts could kill the species in the wild

“TO SAVE the tiger, you have to sell it.” So claimed Chinese officials and scientists at the Global Tiger Forum, a gathering of governments and conservationists in Kathmandu this week. The Forum studies the latest science and advises on policy. It will send its recommendations to the next meeting of signatories to CITES, the convention governing trade in endangered species, in the Netherlands in June.

The principal market for tiger parts, only available illegally, is China, where virtually every bit of the tiger has some medicinal or other use. The 17-strong Chinese delegation to the forum argued that the health benefits of tiger-bone wine and other concoctions are clear, and in high demand. They claimed a ban on the internal trade in tiger parts, which China imposed in 1993, has cost the country $4 billion, and yet poaching persists. The answer, they argued, is to flood their market with products from the 5,000 tigers that live on Chinese farms. The ban had been imposed only because tigers could not be bred in captivity, they said, but now they can be.

Conservationists are campaigning against allowing farmed-tiger parts to be traded. Only an estimated 2,500 breeding adult tigers survive in the wild, 80% of them in India. They are under severe pressure from loss of habitat and prey species as well as poaching. A relaxation of China's rules, they say, would drive the giant cats to extinction in the wild.

“It's make or break,” says Belinda Wright, director of the Wildlife Protection Society of India. “If we lose this fight, we've lost the battle.” A return to open trade, conservationists fear, would stimulate demand for a product that was slipping from public favour. China is widely given credit for successfully enforcing the ban and removing tiger from the official list of medicinal substances.

Wild tiger would probably remain more valuable because in Chinese medicinal thought it is regarded as more potent. What is more, it would remain cheaper for dealers to obtain. It costs thousands of dollars to raise a tiger in a cage but as little as $20 to hire a poor peasant to poach one.

A captive-bred tiger has never successfully been released into the wild, and conservationists say it would be impossible to do so with the 5,000 on Chinese farms, as their owners sometimes claim to intend. Sue Lieberman, of WWF, a conservation group, says the tigers are being bred like “chickens on a farm”. And, despite denials from the Chinese government, there is abundant evidence that farmers are already turning tigers into food and wine.

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Nigeria

How to steal yet another election

Apr 19th 2007 | ABUJA AND AWKA
From The Economist print edition

AFP

After rigged and violent local polls, the opposition threatens a boycott of the presidential race

Get article background

IF AFRICA'S vaunted renaissance is to mean anything, Nigeria—it is widely agreed—must point the way. It is Africa's most populous country (with 140m people), its biggest oil producer (with 3% of the world's exports), and fancies itself as the continent's diplomatic leader, alongside South Africa. Its relatively smooth transition from military to civilian rule in 1999 had raised hopes that Nigeria might be leaving the cruelty and mismanagement of the two previous decades behind it—and put the country squarely back as a respected giant of the continent.

The presidential election in particular, due on April 21st, was meant to herald a new chapter in Nigeria's democratic advance, marking the first time since the country's independence in 1960 that a civilian president, Olusegun Obasanjo, albeit a former general, would hand over to his elected successor. That may still happen, but at a dreadful price.

The lengths to which Mr Obasanjo's ruling People's Democratic Party (PDP) has gone to cling to power have undermined and discredited so many of Nigeria's institutions and office-holders that the country now seems more a prisoner of its bleak past than a beacon for the future. So blatant was the vote-rigging and fraud in the 36 state elections on April 14th that all the opposition parties at first demanded that the results be voided and the coming presidential poll postponed, although the main ones later seemed to relent.

Much of the blame for the present electoral chaos rests with Mr Obasanjo himself. He was elected in 1999 and again in 2003. But two years ago he began a campaign to overturn a constitutional term-limit so that he could run for a third time for president. After the Senate thwarted him in that ambition last May, he then used every means to prevent his opponents from running in the current elections and to ensure that his party friends would hang on to the thousands of oil-soaked, lucrative political offices, from the big ministries right down to the humblest local-government seats, that in Nigeria offer such easy opportunities for enrichment.

The result has been a chaotic, divisive and embittering electoral saga. In the past year the country's courts have been used to try to keep hundreds of candidates off the ballot, most of them opponents of the PDP, many of them disaffected one-time supporters of Mr Obasanjo, fed up with his dictatorial and self-destructive ways. The most prominent is the vice-president, Atiku Abubakar, who, after contesting several court actions intended to knock him out of the race, got the Supreme Court's go-ahead to run as a presidential candidate only this week.

Even worse, Mr Obasanjo has pursued a highly partisan campaign by manipulating and abusing the very institutions, such as the elections commission and the anti-corruption agency, the Economic and Financial Crimes Commission (EFCC), that were touted as paragons of his reforms, so undermining their hard-won credibility in the eyes of many Nigerians.

The EFCC has provided the courts with most of the ammunition to bar candidates (eg, Mr Abubakar) on grounds of alleged corruption, made several extraordinary interventions in candidates' actual selection, and seemed to target the PDP's opponents while ignoring many of Mr Obasanjo's notoriously corrupt allies. The performance of the Independent National Electoral Commission (INEC), whose chairman and directors were all appointed by the president, has been so inept that some experts think it was set up to fail. In many local elections it has looked far from independent: more like a creature of the government's gubernatorial candidates.

The art of rigging

Take Anambra state, about six hours' drive south of the capital, Abuja. Here, one of Mr Obasanjo's closest allies, Andy Uba, had been imposed on the local PDP party as its candidate for governor. By contrast, a prominent opposition candidate, Chris Ngige, one of those disaffected former Obasanjo men, was mired in court actions to keep him off the ballot. Despite winning a court order just four days before the poll to let him run on April 14th, his name, cometh the day, was still mysteriously off the ballot.

Plenty of votes were rigged on the day itself, just to make sure. In Anambra state, most people could not vote at all. They turned up at the voting stations, but often INEC's officials simply did not arrive. When a polling station did open, usually about six hours late, the officials did not have enough materials, notably a register, to let voting begin. On a tour of a dozen voting stations in the state capital, Awka, on the afternoon of polling, your correspondent did not see a single vote being cast, just angry mobs of frustrated would-be voters saying they had been “disenfranchised”. Barely any polling stations were provided with a results-sheet, on which officials and party agents are supposed to record the number of votes cast for each party; presumably these were being filled in elsewhere.

Among those unable to vote was the outgoing governor himself, Peter Obi, and several other notables. No local INEC officials could be found to account for the failure to deliver any materials to the voting stations. The result, a huge victory for Mr Uba, was sneaked out at 5.30am on the morning of April 16th in Abuja, to avoid any scrutiny. The official turnout was also high—higher, indeed, than the number of people registered. Mr Uba's celebration party, with plenty of booze, guns and Humvees, was quite an event.

It was a pattern repeated throughout the country, particularly the late opening of polling stations and the lack of ballot material leading to widespread disfranchisement. Things were particularly bad in the oil-rich Delta Region, where absurdly high turnouts of 95% were being recorded in some local-government areas. Voters were being routinely intimidated by gunmen who sometimes stole ballot-boxes in front of journalists.

Guess who is winning?

An observer from Human Rights Watch, a New York-based lobby, described the vote-rigging as “shameless”. European Union observers privately said that in half a dozen states there was no real election. At least 26 people have died in election violence. INEC offices were burnt to the ground in several places by protesters angry at its complicity in electoral fraud.

At the latest count, Mr Obasanjo's PDP had won 29 of the 33 states so far declared. Voting, said the outgoing president, had gone “fairly well”. INEC said Nigerians should be proud of their achievement.

But the non-voters in Anambra state begged to differ. Most of them agreed that these elections had been far worse than those of 1999 and 2003, a sentiment echoed across the country. For many, it means Nigeria is going backwards. As in the bad old days, some politicians seem able to break any law with impunity to enrich themselves in the continent's wealthiest state houses, where they often have bigger budgets at their disposal than many of Africa's smaller countries. Yet, despite its natural wealth, Nigeria is one of the world's poorest countries per head of population.

As *The Economist* went to press, it was still uncertain whether the opposition would take part in the presidential election on April 21st. Sadly, many Nigerians have already discounted that event as a meaningless charade. Some suspect it may not take place at all.

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Sudan

Too few, too late?

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From The Economist print edition

Even if UN forces are at last let into Darfur, will they be able to save it?

AFTER months of huffy hesitation and evasion, Sudan's government at last agreed this week to let some 3,000 UN peacekeepers, replete with helicopter gunships, into its ravaged western region of Darfur. The UN's blue helmets are to bolster an ineffectual force of 7,000 troops now on the ground under the aegis of the African Union (AU). The UN's secretary-general, Ban Ki-moon, says he hopes the Sudanese government in Khartoum may yet allow the peacekeeping mission to be beefed up a lot more, bringing its strength up to 22,000 soldiers and police under a "hybrid" UN and AU command. But Sudan's president, Omar al-Bashir, shows no sign of agreeing to such an increase.

This week's deal will have no immediate impact on the misery in Darfur, where at least 200,000 have been killed and 2m displaced since 2003 in fighting that has ranged over scrubland the size of France. But it is a start. If a small but robust UN force proves more effective, pressure may grow on Mr Bashir to let in a bigger force.

EPA

On the move, again, in Darfur

A key factor in persuading him to relent was an apparent change in the attitude of China, which had hitherto prevented any real pressure being put on Sudan; most of Sudan's oil goes to China, which provides Sudan's government with most of its arms and much of its sorely needed investment in infrastructure. The Chinese government may have been rattled by a campaign launched in America calling for a boycott of next year's Beijing Olympic Games and dubbing them "the Genocide Olympics".

China has blithely ignored accusations that it is indirectly to blame for letting the Darfur carnage continue. But when the Olympics are brought into the equation, it becomes twitchier. A letter to China's authorities from Steven Spielberg, the American film director, urging them to help alleviate the suffering in Darfur may have forced the issue. Mr Spielberg is advising on the Olympic ceremonies, heralded as China's coming-out party. He may have feared being labelled a hard-hearted propagandist, much as Leni Riefenstahl was damned for her photographic choreography of the Nazis' Berlin Olympics of 1936.

Whether or not his letter had an effect, China's president, Hu Jintao, promptly sent a senior official to Sudan—and a deal was struck. No one is confident that Mr Bashir will stick to it. He has often wriggled out of agreements before. The American administration remains particularly sceptical. Its relations with Khartoum will improve, it says, only when things in Darfur improve. President Bush said this week he would press for sterner sanctions if Sudan failed to co-operate fully. But Mr Bashir is banking on America's bark being worse than its bite, because he knows he is still valued, if only by the CIA, as an American ally in the so-called war on terror.

It is unclear, in any case, how much difference the dispatch of 3,000 UN troops to Darfur will make. For a start, they are not due to arrive until October—or later, if the Sudanese drag their feet again. It is even less certain that Mr Bashir will let the much bigger hybrid UN-AU force be built up. And even if he did, there is no knowing if it would be effective.

Few countries are willing or able to provide the right sort of troops for the job: special forces and paratroops, as well as medical units and engineers. Fewer still, apart from the United States, have the needed airlift capacity. Sudan insists that the UN force must have an African face. But few African countries have the military clout; the best are overstretched. By the by, if the AU were persuaded to bolster its force in Sudan, that would probably end any serious effort to stiffen the backbone of its under-sized force now struggling against the odds to keep the peace in Somalia's capital, Mogadishu.

Even if peacekeepers do eventually reach Darfur in meaningful force, the region may be overwhelmed by problems of nature. The recent carnage apart, the number of people and cattle has risen much faster than their ability to sustain themselves, even in peacetime. Aid agencies now feed almost half the population. Over the years, as rainfall has declined and crops have become less bountiful, a gross dependency has set in. It is uncertain whether the people of Darfur will ever be able to look after themselves again.

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Israel's Arabs

A lawmaker vanishes

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From The Economist print edition

The mysterious flight of a prominent Israeli Arab stirs an old debate

SINCE Azmi Bishara, an outspoken Palestinian member of Israel's parliament, announced earlier this month while on a trip abroad that he would resign his seat, Israel has been abuzz with rumours about why, and whether he will come back. A gag order has been slapped on the details of a criminal investigation into Mr Bishara, which his supporters say is a deliberate attempt to prevent him from refuting the charges in public. But he told an Arabic-language Israeli station, Radio al-Shams, that the probe includes financial dealings and “security matters”. That, most people assume, means passing some kind of information to contacts in Lebanon, which he visited during Israel's war against Hizbullah there last summer.

Mr Bishara is not new to such run-ins; his visits to Syria and his praise of Hizbullah after Israel's first war in Lebanon have landed him in court twice before, though he was absolved. He enrages most Jewish Israelis as a kind of fifth columnist who, they reckon, smiles on Arab terror. What is significant now is not what he may have done, but the timing—coinciding with a new debate over the status of Israel's Arab citizens.

Palestinian (and, to a lesser extent, Druze and Bedouin) Arabs, who make up over one-fifth of Israel's 7.1m citizens, find Israel's self-definition as a “Jewish and democratic” state rather oxymoronic. Jewish Israelis, however, often stress that their Arab compatriots have full political rights, that there are a dozen Arabs in Israel's 120-strong parliament, the Knesset, and that they can speak out in a way that they cannot in some Arab countries.

But Yousef Jabareen, a lawyer and lecturer at Haifa University, identifies over 30 discriminatory laws, ranging from the explicit—like the “Law of Return”, which grants any Jew in the world the right to automatic Israeli citizenship—to the implicit, like laws that make it harder in practice for Arabs to acquire land or practically impossible for Arabs from abroad to get Israeli citizenship by marriage. Budgets and infrastructure projects tend to favour Jewish towns over Arab ones; mortgage firms offer special terms to people who have served in the army, which rules out nearly all Arab Israelis; state and private firms are often wary of hiring Arabs; and cases of police brutality against Arab Israelis all too often end up unsolved.

In recent months, Arab-Israeli intellectuals have published documents such as “The Future Vision of the Palestinian Arabs in Israel” and “The Democratic Constitution”, which call not only for legal and civic equality, but for “collective rights” that would create a multicultural state. They proposed, for example, giving Jews and Arabs autonomy over relevant issues, like religion and education; giving each group a veto over laws that could damage them; and making the state's symbols, like the flag and the anthem, more inclusive.

Predictably, rightwingers were furious. They have long hated the combative, colourful Mr Bishara; they tried to kick his party, Balad, out of parliament in 2003, saying that its slogan, “a state for all its citizens”, violated a law that enshrines Israel as “the state of the Jewish people”. (The Supreme Court ruled in favour of Balad.) Such people, says Mr Jabareen, “are now taking the issue of Azmi Bishara as a way to delegitimise the whole discourse”—ironically, since he himself had nothing to do with “Future Vision” or the other tracts.

But many centrist and leftist Israeli Jews who call for urgent measures to end discrimination against Arabs balk at some of these proposals. “I don't think the citizens of a state have a human right to be identified with its symbols,” says Mordechai Kremnitzer, one of a group of Jewish Israelis who drafted a “Constitution by Consensus”, which says Israel should for the first time adopt a constitution defining a “Jewish and democratic state”. This effort partly inspired the Arab proposals.

Hussein Sweity, the deputy editor of *Al-Sinara*, an Arabic newspaper in Nazareth, says the drafters of the Arab documents could have won more Jewish support with a more careful choice of words, particularly avoiding explicit mention of “collective rights” for non-Jews. The Bishara affair, however, may drown out any sensible debate on this delicate issue.

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South Africa

World Cup worries

Apr 19th 2007 | JOHANNESBURG
From The Economist print edition

What to do about football, booze and sex

Get article background

IT IS still three years away, but the football World Cup feels much closer in South Africa, the host for the 2010 tournament. There is much talk of new stadiums, cost overruns and beefing up public transport. The authorities are also dreaming up ways to protect football fans from crime—and the country from the fans.

The police, especially, are getting nervous. Some of the millions of supporters expected to descend on South Africa are likely to celebrate their teams' victories—or seek solace for defeat—at the bottom of a beer bottle or by paying for sex. But prostitution in South Africa is illegal, and drinking in public can land you in jail too.

Beer drinking was hardly a problem in Germany, which held the last World Cup. There, the beer halls were fuller than ever—and people merrily spilled over into the streets. Moreover, there are some 400,000 legal prostitutes in Germany, who pay taxes and get social benefits; the cup was good for business.

Jackie Selebi, South Africa's police commissioner, has told Parliament that trying to arrest everyone drinking in public or every prostitute flaunting her wares would overwhelm his force. One option is to legalise prostitution and drinking in public places for the tournament's duration and contain such goings-on in specific areas.

The churches are against this. Doctors for Life International, a group of conservative Christians, says it would mean rolling out a welcome mat for human traffickers and pimps, who will linger after the final whistle.

But the Sex Worker Education and Advocacy Taskforce, better known by its acronym SWEAT, which helps prostitutes around Cape Town, is calling for their work to be decriminalised. It says many prostitutes fail to get proper health care and do not report rapes or beatings to the police for fear of arrest.

The law banning prostitution, which dates back to the 1950s, has been under review for years, but nothing has come of it. Football is not the only reason to reopen the debate. Some health officials think legalising prostitution would help tackle the war on HIV, from which some 5.5m South Africans are suffering.

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Iraq

As lethal as ever

Apr 19th 2007 | BAGHDAD
From The Economist print edition

The embattled prime minister, Nuri al-Maliki, is struggling to stay on top

Get article background

IT WAS one of the bloodiest weeks for Baghdad since the American invasion four years ago—and one of the roughest for Iraq's battered prime minister, Nuri al-Maliki, since he came to office a year ago. Still reeling from a suicide bomb inside his parliament last week, when one MP was killed and several wounded, he was further buffeted this week by the resignation of all six ministers loyal to a fiery and influential Shia cleric, Muqtada al-Sadr, whose support had enabled Mr Maliki to get the job in the first place.

Then, on April 18th, hours after Mr Maliki defiantly declared that Iraqi forces would take over the security of the entire country from the Americans by the end of this year, Baghdad suffered its worst-ever bombing: nearly 200 people, almost all of them Shia civilians, were killed by five suicide bombs, apparently planted by Sunni insurgents linked to al-Qaeda. One bomb alone, in a market in the Shia district of Sadriya, killed some 140 people, many of them women and children.

Mr Maliki is putting a brave face on it all. The ministerial walk-out, he says, gives him a chance to put a more “professional, technocratic and less sectarian” face on his government. In the short run, the Sadrists' resignation, prompted by Mr Maliki's refusal to set a firm deadline for the American troops' departure, may not bring him down, but it is one of many ominous signs. His premiership looks limp. He has failed to stop ministries from becoming the fiefs of the competing parties. Some ministers accuse him of dithering. Others say he bypasses their ministries, relying instead on a cabal of personal advisers appointed largely because of their loyalty to his fairly small Dawa party. “It is a coup by stealth,” says a Kurdish minister. “It is neither democratic nor effective.”

Mr Sadr's 30-strong block of followers in parliament, which has 275 members, was the largest faction in the ruling Shia alliance and had backed Mr Maliki as prime minister largely to stop the post going to the Supreme Council for Islamic Revolution in Iraq (SCIRI), their bitter rivals in the Shia alliance. There was little love lost between Mr Maliki and the Sadrists, whose ministries soon became bywords for sectarian nastiness, but he calculated that he was probably better off having them inside his tent. Now the fiery cleric's MPs will be free publicly to oppose him.

Perhaps more worrying, the Sadrists' withdrawal from the government could now make it harder for Mr Maliki to persuade their Mahdi Army militiamen to put away their guns, especially when Sunni bombers continue their carnage on this week's horrifying scale. So far, the unpredictable cleric has by and large co-operated with the latest American-Iraqi security plan, by reining in his gunmen. Many Sadrists are itching to resume their brutal campaign against their Sunni compatriots.

Having lost the Sadrists, Mr Maliki faces a battle to keep Iraq's deeply alienated Sunni Arab leaders in his national-unity government. Iraq's Sunni vice-president, Tariq al-Hashimi, has strongly criticised Mr Maliki for failing to ensure that Sunnis have a bigger say in decisions or to foster national reconciliation. Mr Hashimi and fellow Sunni Arabs who have engaged in parliamentary politics say they are being increasingly targeted by al-Qaeda-tied insurgents and other violent Sunni groups. Mr Maliki must fast fulfil some of his promises, says Mr Hashimi. “Otherwise, the extremists win.”

The Americans seem still to be backing Mr Maliki, for now. Their new ambassador, Ryan Crocker, has been stressing his support. “Frankly there's no alternative we can see,” admits one of his aides. “But we are still not certain he is up to the job.”

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Iran

A comic film about a grim subject

Apr 19th 2007 | TEHRAN
From The Economist print edition

Why Iranians of all stripes are packing the cinemas to see it

Illustrations

The troubadours of Tollywood

FOR a man who used to beat up reform-minded students, Masoud Dehnamaki comes across as deceptively mellow. Once a militia leader, he has put away his cudgel and directed one of Iran's biggest-ever cinema hits.

After two successful documentaries, about prostitution and football violence, Mr Dehnamaki's first feature film, now filling cinemas in the capital, Tehran, is an irreverent comedy called *Ekhrajiha* ("The Outcasts"). By portraying a gang of Tehran thieves and junkies as war heroes, it took the authorities by surprise.

At the start of the film, the hero, Majid, is imprisoned for attacking a man who makes salacious comments to a virtuous young woman. Despite the authorities' unwillingness to accept Majid and his unsavoury friends as volunteers in the war against Iraq (all of whom were meant to be devout), they reach the front line to be redeemed by sacrifice. When *Ekhrajiha* failed to win any of the prizes at the recent Fajr International Film Festival in Tehran, Mr Dehnamaki hinted that the authorities wanted to suppress it for being subversive.

But his dismissive attitude to the revolution's sacred cows has won him wide admiration, among both liberal intellectuals and Muslim fundamentalists. His first documentary, about prostitution, was equally provocative, breaking an official taboo by suggesting that the Islamic republic's veneer of virtue hid a society marred by corruption and poverty.

Mr Dehnamaki was traumatised by the war. Until a few years ago his office looked like a trench, with sandbags and ammunition boxes. After his return from the front, he joined Ansar-e Hizbullah ("Followers of the Party of God"), a violent vigilante group that reveres Ali Khamenei, Iran's supreme leader. Later, as editor of the group's magazine, he advocated political violence.

The group stands for a small core of extremists. Many fought in the war and were dismayed by what they deemed a betrayal of revolutionary ideals during the economic reforms of the 1990s. Now unattached to any political group, he still rages against poverty and corruption.

Such feelings infuse *Ekhrajiha*, which is nonetheless an odd mix of slapstick humour and mawkish sentimentality. Mr Dehnamaki may have changed his political methods and may mock the Islamist establishment, but Iran's liberals are wary of him, knowing they are still his biggest natural enemies.

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France's presidential election

The end of the beginning

Apr 19th 2007 | METZ AND PETITE-ROSSELLE
From The Economist print edition

AP

As the first stage of the campaign finishes, the outcome still hangs in the balance

Get article background

THE rusting, mechanical skeletons of a disused coalmine might seem an eccentric backdrop against which to evoke a country's future. But that is where Nicolas Sarkozy (above), France's main centre-right candidate and front-runner in the polls, took his campaign to be president this week, when he dropped in on a former pit in Lorraine, in eastern France. The choice was deliberate, giving him a chance to salute, as he put it, “blue-collar culture” and muscular industriousness, the values he has placed at the heart of his campaign.

As French voters prepare to go to the polls on April 22nd for the first round of their two-stage presidential election, the campaign has strayed from the specifics of policy to a fierce contest over values and character. Under the Fifth Republic, the occupant of the quasi-monarchical presidency is expected in some way to embody France, and to rise above partisan politics to become a unifying figurehead. In other words, voters are selecting not just a political programme but a personality.

Perhaps inevitably, the struggle among the rival leading candidates to fill this role has duly turned personal—and Mr Sarkozy has been the prime object of attack. Ségolène Royal, the Socialist candidate, has denounced his aggressiveness—“the violence of his words does not bode well for his personal identity”—styling herself by contrast as a maternal figure of comfort. *Libération*, a left-leaning newspaper, this week ran a headline “The worrying Mr Sarkozy”. Jean-Marie Le Pen, the leader of the far-right National Front, even queried Mr Sarkozy's claim to be genuinely French, since he “is the product of immigration” (his father came from Hungary), and not a “candidate of the land”—such as the Brittany-born Mr Le Pen.

Some of this can be put down to the intensity of the closing days in a fiercely fought campaign. Rarely has a French election looked as close as this one. Mr Sarkozy may have come top in the first round in nearly 100 opinion polls taken so far this year, but his lead over Ms Royal has narrowed in the most recent ones. Many voters remain undecided. Although the chances are still that it will be Mr Sarkozy and Ms Royal who make it through to the run-off, with scores in the low-to-mid-20s apiece, it is by no means inconceivable that it will be Ms Royal who ends up topping the first-round vote.

It is also widely accepted that Mr Le Pen's opinion-poll numbers, at 13-15%, underestimate his support. Despite the stigma of any public association with him, a rally he held in Paris last weekend drew 5,000 people; many others were kept waiting outside. Mr Le Pen, who ousted the Socialist candidate in the first round in 2002 to win a place in the run-off, could yet spring another surprise. The polls put him in fourth place, behind the centrist François Bayrou. But he could easily finish third, picking up declared supporters from both Mr Sarkozy and Mr Bayrou. According to a leaked report from the Renseignements Généraux, the domestic intelligence service, the existence of which it later denied, Mr Le Pen could again make it into the second round, against Mr Sarkozy.

Indeed, it is the enduring potency of Mr Le Pen that has pushed Mr Sarkozy to the right on immigration during this campaign. Although Mr Sarkozy firmly rules out an electoral deal with the far-right leader in the second round, assuming he gets through, he has been unapologetic about courting his supporters. “It is not Le Pen that I'm interested in,” he says, “but his voters.” To that end, at a rally in Metz this week Mr Sarkozy repeated his declaration that “those who do not like France are not obliged to stay.” He even added a religious twist: France, he said, should not “renounce 2,000 years of Christian civilisation and heritage.”

Distaste for all such talk is one reason why Mr Bayrou has managed to carve out a space in the centre, drawing in those who are turned off both by Ms Royal's economic left-wingery and by Mr Sarkozy's divisiveness. This week, in a bid to consolidate the centrist opposition to Mr Sarkozy, two prominent Socialists (Michel Rocard, a moderate former prime minister, and Bernard Kouchner, co-founder of Médecins sans Frontières, an international charity) urged Ms Royal to find a way of joining up with Mr Bayrou. Both candidates refused—at least, ahead of the first round.

On the provincial factory floor, however, Mr Sarkozy's message seems to go down well. He has tailored his campaign to the blue-collar worker, whose pocket is squeezed and who seems to yearn for a return of such values as authority, respect, national pride and hard work. Hence his repeated trips to the assembly line—after the disused colliery at Petite-Rosselle, he dropped in on a boiler manufacturer—with their tinge of industrial romanticism. No matter that Mr Sarkozy offers no specific policy to stop French industry from relocating to low-cost countries: the imagery is all. “I will fight industrial relocation,” he promised a gathering of workers in blue overalls and hard boots, against a background of clanking machinery. “If we let the factories go, we'll let everything go.”

It is the same message every time, and it strikes a chord. In Petite-Rosselle, it was not only former miners who turned up to listen. A young mother, her plump baby on her hip, had come along out of curiosity. A young man, who had suspected Mr Sarkozy of being too close to France's corporate bosses, left seduced by his promise to protect industry. A local nurse, on strike that day, was also won over. “He's the only one who speaks up for us, the people who get on with their lives, and don't complain,” she said. Such support should surely be enough to carry Mr Sarkozy into the second round. The harder question is, will it be enough for him to win it?

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Russian protests

Democracy à la russe

Apr 19th 2007 | MOSCOW AND ST PETERSBURG
From The Economist print edition

The brutal suppression of peaceful protests says much about the dangerously unfettered mood in the Kremlin

SHORTLY after noon on April 14th, Russian riot police—known as the OMON—dragged a young man holding a bunch of flowers off the pavement near Pushkin Square in central Moscow. As he was thrown into a van, he braced his feet against the doors, to cheers from the crowd, but to the evident ire of the police. The doors were repeatedly slammed against his legs. An officer who climbed inside then appeared to beat him.

The thousands of soldiers and police who mustered in the streets for the day gave Moscow an air of war. They came to quash a protest by Other Russia, a disparate coalition of President Vladimir Putin's critics. When a small group bypassed the cordons around the square and began shouting “freedom”, the OMON rushed in. Copies of the constitution that the group had been carrying were trampled; Garry Kasparov, a former chess champion, was pulled from a restaurant. The OMON beat everybody nearby, including journalists, with truncheons and fists. And they arrested people indiscriminately, among them the man with the flowers, a group of transvestites and even a small boy.

The excuse for all this was that the authorities had denied permission for Other Russia to rally in Pushkin Square. That refusal was itself one of the gnawing, pseudo-legal methods used to harass Russia's meagre opposition. The claim was made that a fake pro-Kremlin youth group had lodged an identical request only moments before Other Russia did. A handful of counter-protesters duly appeared on a roof, where they let off flares and insulted those below; the police did nothing. A few nationalists also gathered later in the day, with posters showing Jews clutching severed heads of Russian babies and making Nazi salutes.

There had been grim pre-emptive warnings about the treatment that “illegal” protesters could expect, which were amply fulfilled. As a gritty snow fell, a few hundred tried to march to Turgenev Square, where a meeting had been sanctioned, chanting slogans such as “Down with Chekist power” and “We need another Russia”. Mikhail Kasyanov, once Mr Putin's prime minister, now a critic, was jostled; his bodyguards were arrested. A small peaceful group was intercepted by the OMON. An old man tried to save an old woman from arrest; a dozen club-wielding men viciously attacked both. Vladimir Ryzhkov, an independent member of parliament whose party and seat are both disappearing under new political rules, advised everyone to go home.

The thousand-odd who managed to reach Turgenev Square were surrounded by soldiers. When the time allowed for the meeting expired, they were driven off. Andrei Illarionov, a former economic adviser to Mr Putin, vainly read extracts from the Russian criminal code to an OMON officer. He and others were forced into a metro station. Later Mr Kasparov was ludicrously convicted and fined for shouting anti-government slogans. Supporters and journalists who gathered outside the police station were beaten again.

The next day the action moved on to sunny St Petersburg, where Mr Putin himself first learned his trade in the KGB. Gazprom's plans to build a tower, and the exclusion of Yabloko, a liberal party, from a regional election, had contributed to an unusually large protest there in March. This time, the authorities were better prepared. As in Moscow, several would-be participants in Other Russia's meeting were detained in advance. Only around 1,000 gathered for a suffocatingly policed demonstration. “I believe Putin is the most dangerous criminal in Russia”, read one man's placard, which bravely specified his name and address. “I love you, OMON”, said another.

The feeling was not reciprocated. As in Moscow, reinforcements were summoned from outside, perhaps because they would be less squeamish about pummelling the locals. “Are you going to beat us all?”, an old woman asked an officer in battle gear, as protesters were funnelled away from tourists on Nevsky Prospekt. Shortly afterwards they did. When a group reached Vitebsky railway station, the OMON blocked their path, banged their riot shields and charged, skull-cracked and arrested at random. People waiting for buses and drunks sleeping on benches were caught in the frenzy. Eduard Limonov, the leader of another

banned organisation, was arrested.

The Kremlin says that its Other Russia critics are insignificant, and in a way it is right. Even were they not denied access to television (newspapers and radio stations who interview them also risk prosecution), the part-Jewish, part-Armenian Mr Kasparov and his allies would not command much support. Ordinary Russians can be stirred by tangible worries such as welfare reform, but for most of them freedom is about foreign holidays and a new television, not politics. Still, last weekend's excesses matter because of three things they reveal about the regime.

First, the old Soviet neurosis about public meetings has been stoked to paranoia by Ukraine's “orange revolution” of 2004, which some in the Kremlin saw as a Western-sponsored coup. Since dissent must reflect foreign meddling, they see Other Russia as a Western stooge, part of a covert operation to destabilise the country. As with so many authoritarian rulers, they may be unsure how popular they are.

Second, ahead of next year's presidential election the Kremlin is set on intimidating any opponents into quiescence, whatever the cost to Russia's reputation. Some may also want to send a message to foreign enemies, including exiles in London such as Boris Berezovsky.

Yet Mr Putin is not Stalin. Nobody was killed at the protests, though hundreds were arrested and dozens hospitalised. But the third lesson is that the ruthless paranoiacs who run Russia are utterly unfettered in what they choose to do. Parliament is unlikely to investigate the huge cost of the gratuitous mobilisation. Suborned courts convicted innocent people of imaginary offences. The scant coverage on the main television channels made no mention of the man with the flowers or the brutalised old couple, and called those who demonstrated “ultra-radicals”.

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Moldova and Russia

A thaw in the river

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From The Economist print edition

A settlement in Transdniestria is bad news for Moldova—and the West

ITS consequences may be disastrous, but a deal on the worst territorial dispute in Europe's poorest country was still too tempting. Moldova, sandwiched between Ukraine and Romania, has been split ever since a brief civil war in 1992. Its industrialised part—a strip of land to the east of the Dniester river—maintains an unrecognised independence, propped up by Russia's cheap gas and its contingent of “peacekeepers”.

Transdniestria, as it is called, is a black hole. It makes weapons, ranging from cheap submachineguns to high-tech missile parts. The customers are unknown. It also has lucratively porous borders: one common scam is to smuggle American chicken-meat in and out of Ukraine's protected home market, at a profit of some €700 ($950) per tonne.

Previous attempts to broker a peace deal have got nowhere. Transdniestria's rulers have close ties with business-minded counterparts in Ukraine, Russia and even in Moldova proper. And Russia is unwilling to give up a sliver of its former empire. Last year it imposed a punishing embargo on Moldovan wine. But now Moldova is shifting its position. Last week President Vladimir Voronin set out a new approach that suits the Kremlin—but will dismay Moldova's friends in the West.

In a declaration to be signed jointly with the Transdniestrian leader, Igor Smirnov, Moldova will for the first time recognise Transdniestria's government and leadership as legitimate entities. Voters on both sides will elect a new Moldovan parliament. Transdniestria will keep its Supreme Soviet and have top deputy ministers in the national government. By 2009 Russia's troops will be replaced by unarmed international monitors.

American and European Union diplomats found out about all this only when Vladimir Socor, a Munich-based analyst, published a leaked version last week. Now officials in Washington, DC, and Brussels are urgently seeking clarification. They hope it is an idea, not a real plan, but they fear the worst. Even unencumbered by Transdniestria, Moldova's economy has been lacklustre. Of its 4.4m people, at least 400,000 have emigrated; the country survives on their remittances. A dose of Transdniestrian politics is likely only to strengthen all the darkest forces in Moldovan public life.

And what guarantee is there that the deal will stick? “Russia tends to take agreements as the basis not for implementation, but for further negotiation,” says one cross official. The Kremlin has twice ignored previous deadlines for withdrawing troops. Suppose that, in a year's time, it finds pressing reasons for staying on?

A third question concerns the Transdniestrian KGB. Closely linked to Moscow, it is run by Vladimir

Antufeyev, who was involved in a failed Soviet crackdown in the Baltic states in 1990. Many think it is he, not Mr Smirnov, who runs the show. The Moldovan minister for Transdniestria, Vasile Sova, insists Mr Antufeyev and his pals must leave. Will they?

But the biggest puzzle is the timing. Russia's president, Vladimir Putin, may have convinced Mr Voronin, a naïve ex-baker, that the moment was ripe for a deal. Russia may have wanted a quick fix to contrast with the wrangles at the United Nations over the future of Kosovo, Serbia's breakaway province. Yet if the Kremlin was in such a rush, why was it Moldova that had to make concessions?

Crony capitalism could be triumphing over other differences. A top Moldovan politician's scrap-metal business sells mainly to a steel mill in Transdniestria. The son of another has a chain of fast-food restaurants that operates in the separatists' capital, Tiraspol. In theory, cash from the West should counteract any pull from the east: foreign donors have pledged more than $1.2 billion to Moldova in the next three years. But much of this depends on reforms that the country's lethargic and corrupt administration is loth to embrace.

It will be hard for outsiders to block the deal; they may not even bother to try. If they did, they might be called wreckers, given that both sides want it. Yet Mr Voronin's plan means that Russia has, for once, trumped the West. Who might be next?

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Turkey's presidency

A Turkish tangle

Apr 19th 2007 | ANKARA AND ISTANBUL
From The Economist print edition

The argument over the presidency of Turkey turns even nastier

WAS it another provocation by the “deep state”—the shadowy alliance of rogue security forces and ultra-nationalist thugs—aimed at stopping Turkey's Islamist prime minister, Recep Tayyip Erdogan, from becoming the country's new president? Or the work of Islamist extremists? Speculation raged after yet another attack, on April 18th, on Christian targets, this time a publishing house that distributes Bibles in the city of Malatya. The killers bound the hands and legs of three men and then slit their throats. Two of the victims, one of them German, died immediately; the third died in hospital.

Turkey's Christians are saying they no longer feel safe. The interior minister, Abdulkadir Aksu, declared that the real target was the country's stability. Last year an Italian priest was shot by a nationalist teenager in the Black Sea city of Trabzon. In January another teenager shot dead an Armenian news editor, Hrant Dink.

The latest attack took place as Mr Erdogan was meeting fellow leaders of his ruling AK Party to decide if he should replace President Ahmet Necdet Sezer, a fiercely secular former judge, when his seven-year term ends in May. They urged Mr Erdogan not to run, but instead to lead the party into November's parliamentary election. Some aides reckon that Mr Erdogan may not declare his intentions until just before the April 25th registration deadline.

Yet the longer he waits, the greater secular opposition becomes. In the past two weeks, the chief of the general staff, General Yasar Buyukanit, has said that the new president should be pro-secular not only “in words” but also “in spirit”. Days later Mr Sezer repeated an assertion by the general that secularism “faces its gravest threat” since Ataturk founded the republic 84 years ago. The main opposition party is threatening to boycott the parliamentary vote for president if Mr Erdogan runs.

On April 14th over 300,000 Turks, chanting anti-government slogans and waving Turkish flags, marched on Ataturk's mausoleum in Ankara. It was one of the biggest public rallies in recent history. Citing “public sensitivities”, Arzuhan Yalcindag, president of TUSIAD, Turkey's big industrialists' lobby, said she did not believe Mr Erdogan would become president. “It was a polite way of advising him not to,” said a fellow businesswoman.

Yet contrary to claims by the hotchpotch of retired generals, nationalists and anti-European Union activists who organised the rally, many attendees seemed less concerned by Mr Erdogan's supposedly Islamist agenda than by a general malaise over their future. This reflects several things: worries over globalisation, violence in neighbouring Iraq, renewed Kurdish separatism, a feeling of being slighted by the EU. Many are also disgruntled by the rampant corruption of some AK officials that Mr Erdogan has failed to curb.

The bigger worry among Turkey's Western friends is Mr Erdogan's waning interest in human rights. Neither he nor anybody in his cabinet uttered a peep when 50 policemen recently stormed the offices of a liberal weekly, *Nokta*. Acting on orders from a military prosecutor, they copied the contents of every single computer, including journalists' personal e-mails, on the ground that they might contain “official secrets”. The order came after *Nokta* had published an internal military document blacklisting selected journalists.

The magazine is also under investigation for running excerpts from a retired admiral's diary. In it he describes two planned coups against Mr Erdogan in 2004 cooked up by four top military commanders. Codenamed “Moonlight” and “Blonde Girl”, the plots failed to gather support from fellow officers, the admiral wrote, “because the Turkish people don't want coups anymore.” *Nokta*'s managing editor, Alper Gormus, says the only sympathy he has had is a bouquet of chrysanthemums from a local AK official. Yet the government could have prevented the raid if it wanted to, he says, “because it was the justice minister who gave the final nod.”

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German history

Merkel's firm hand

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A state premier is forced, eventually, to apologise for remarks on a Nazi-era judge

SPEECHES about Germany's past, especially about the Nazi period, can make or break politicians. For much of the past week Günther Oettinger, the premier of Baden-Württemberg, has been under intense pressure, after he gave a eulogy at the funeral of Hans Filbinger, one of his predecessors who had in his youth served as a military judge under the Nazis.

At the funeral Mr Oettinger declared that Mr Filbinger was not a National Socialist and added that none of his verdicts had led to a loss of anyone's life. Yet Mr Filbinger had been a Nazi party member; and there is evidence of his involvement in sentencing to death a German navy deserter in occupied Norway. Despite mounting outrage and a public rebuke by Chancellor Angela Merkel, who is the leader of Mr Oettinger's party, the Christian Democratic Union (CDU), the state premier at first stood by his words. “I believe Filbinger was an opponent of the dictatorship,” he repeated in a radio interview. “My comments were justifiable.”

Yet in the end Mr Oettinger could not stand the heat. On April 16th he cancelled a planned trip to Rome to mark the pope's 80th birthday and travelled to Berlin instead for a meeting of CDU leaders. Pressed by Ms Merkel, he at last apologised, saying that he wished to distance himself from his “formulation”.

This should be just enough for Mr Oettinger to keep his job. Charlotte Knobloch, the leader of Germany's Central Council of Jews, is due to meet Mr Oettinger soon. Mr Oettinger's local party is backing its boss, whose merits as premier of one of Germany's most prosperous states is not contested.

Why did an experienced politician make such a mistake? Some assume that Mr Oettinger, with the 2009 federal election in mind, was trying to appeal to conservative voters who feel uncomfortable with Ms Merkel's more centrist policies. Mr Filbinger was one of the towering figures on the CDU's right wing, whose leaders suspect Ms Merkel of trying to move the party closer to the ground occupied by the Social Democrats, her grand-coalition partner.

Yet by her fierce reaction Ms Merkel has shown her strength as a leader—and confirmed that she has a stronger grip on the CDU than any of her rivals among state premiers. Until this week, Mr Oettinger was one of them.

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Charlemagne

Scotland's Eurodreams

Apr 19th 2007
From The Economist print edition

Nationalists say an independent Scotland would automatically be in the European Union. It is not so easy

Peter Schrank

YOU would have to be a brave politician to build an election strategy around the cause of Europe at a time of such general grumpiness with the European Union. Yet Europe stands at the centre of the plan by the Scottish National Party (SNP) to win next month's election to the Scottish Parliament. The SNP is on course for its best-ever result, although probably not an outright majority. This is due in large part to its efforts to mutate from a wild bunch of nationalists into a party of the mainstream. A pledge to seek independence only within the EU has played a big role, summed up by the slogan “Scotland in Europe”. It is a clever phrase: painting a picture of plucky Scotland setting out into the wider world, but within a reassuring European embrace.

This must seem a triumph for the European Union's founding fathers. Here is that most complacent and Eurosceptical of political unions, Britain, facing dissolution partly because Scottish voters are reassured by the existence of a much bigger union embracing 27 countries. As citizens of the EU, citizens of a newly independent Scotland could continue to live and work wherever they wanted in the European Union. Nor would independent Scots face the prospect of barbed wire, border posts and watchtowers sprouting along some latter-day Hadrian's Wall. Travellers in the EU are used to frontier-hopping marked by no more than a change of speed limit and a faint nostalgia for the days when crossing a border earned an exotic stamp in your passport. In short, many things need not change were Scotland to split off from Britain—if it retained uninterrupted membership of the EU.

Yet that is a bigger if than the SNP admits. The party insists that an independent Scotland would have automatic, seamless membership of the EU as a successor to the defunct United Kingdom. The European Commission's legal advisers insist otherwise. They say that what is left of Britain would remain an EU member but that Scotland would have to apply to join as a new member, a process that triggers all sorts of complications. Not the least of these would be a referendum in France, whose constitution—thanks to French anxiety about Turkish membership—now requires such a vote on all future EU applicants (bar Croatia, whose entry talks kicked off before the deadline).

Nobody doubts that Scotland would eventually get in, but this could take time. And even if Scotland were excused the set-piece process of full-blown membership negotiations, the EU treaties would at the very least need to be tweaked to decide such matters as how many members of the European Parliament and votes in the Council of Ministers Scotland should have. Yet any change to the treaties needs the unanimous approval of all the current members, giving every single country a chance to veto Edinburgh. Who knows whether some government or other might not fancy a wrangle over fish or the EU budget? The Spanish government might not want to nod Scotland through, for fear of encouraging its own separatists.

As one EU diplomat puts it: “If your sole question is, would you like to have Scotland in the EU, everyone would say yes. But it's not as simple as that.” In Brussels high-level questions of law are often settled by low-level questions of horsetrading.

The strange revival of the nation-state

Scotland is, of course, only one region in which the EU seems to offer new hope to nationalists. Just as Britain has devolved ever-greater powers to Scotland, so Spain has devolved power to Catalans and Basques. Indeed, as power moves upwards to Brussels and downwards to regions, some are hoping that it will be sucked away from national parliaments in the middle, turning the EU or parts of it into a sort of United States of Europe with a lot of autonomous mini-regions. That, you might say, was once the federalists' ultimate fantasy: a Europe that has banished nations, and therefore nationalism, and therefore the terrible conflicts to which nationalism has historically given rise.

Perhaps. And yet believers in the United States of Europe should pause before cheering the rise of parties such as the SNP. For at the end of the day this party is asking for Scotland to be that most 19th century of creations: a nation-state. Here is a painful irony for federalists. Europe has swept away many internal borders, and taken on tasks that once posed formidable challenges to sovereign tiddlers, such as running a currency. But far from making nation-states redundant, it has made it less risky to seek nationhood. Indeed, by talking of independence “in Europe”, the SNP hopes to offer voters another, coded form of reassurance. When a separatist party campaigns under the EU flag, it proffers a modern, inclusive version of nationalism, not some atavistic vision based on blood or tribe. This is especially useful in countries where separatism has triggered much anguish and even bloodshed over the years, such as Spain.

Scottish or Basque nationalists sometimes suggest that, once freed from the oppressive fist of London or Madrid, they would not be fierce nationalists but exemplary citizens of the EU. But the evidence for this is slim. Great dollops of European money have been poured into Scotland over the years, and Scots do seem to view the EU more positively than Britons as a whole, but only by a couple of percentage points, according to the Scottish Executive. A mere 12% of Scots describe themselves as European—the same share as for Britain as a whole.

Besides, to make its way inside the EU an independent Scotland, Basque country or Catalonia would have to adopt all the bad old ways of the nation-state. That is simply how the union works. Ian Hudghton, the SNP's president and a member of the European Parliament, says that real power in the EU still lies with national ministers, prime ministers and presidents. “I see no sign that existing member states have any intention of pooling significantly more powers than they already have.” The existence of the European Union is more likely to encourage the proliferation of nation-states than to help them wither away.

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Correction: France's presidential election

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Last week's briefing on the French election said that Adecco was a French firm. In fact it is Swiss, though France is its biggest market. The table (corrected online) also made a muddle of the main candidates' "most-worn phrases". It should have read:

Ségolène Royal: "We need justice and order"
François Bayrou: "Bridge the left-right divide"
Nicolas Sarkozy: "Get France back to work"

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Inflation shock

Mervyn writes that letter

Apr 19th 2007
From The Economist print edition

David Simonds

Interest rates must rise further to curb price pressures

Get article background

JOHN MAYNARD KEYNES thought it would be splendid if economists could gain a reputation as humble, competent people—like dentists. In a similar spirit Mervyn King, the governor of the Bank of England, has long entertained the modest aspiration of making British monetary policy boring. After this week's thrills and spills, achieving his ambition remains as distant as realising Keynes's vision.

On April 17th official figures revealed a surprise jump in inflation. City experts had forecast that consumer prices would rise in the year to March by 2.8%, the same as in February. Instead, CPI inflation rose to 3.1%, the highest since the official series began in 1997. Retail-price inflation, a more realistic measure of the cost of living since it includes owner-occupier housing costs and local property taxes, increased to 4.8%, the fastest since July 1991; excluding mortgage-interest payments, it rose to 3.9%.

Scenting more monetary tightening over the next few months, foreign-exchange dealers pushed sterling above the talismanic value of $2 for the first time since 1992, shortly before the pound was ignominiously turfed out of the European exchange-rate mechanism on “Black Wednesday”. Just as unboring, the surge in CPI inflation to 3.1% prompted an unprecedented open letter from Mr King to Gordon Brown, the chancellor of the exchequer, explaining why it had happened and what the bank proposed doing about it.

The requirement for such a letter was introduced when Mr Brown gave the bank operational independence in setting interest rates ten years ago, along with the job of ensuring that inflation hit the government's target. This was first set at 2.5% a year for retail prices excluding mortgage-interest payments, and then switched in December 2003 to 2.0% for consumer prices. Whatever the measure, if inflation strayed by more than a percentage point in either direction from the target, the governor would have to explain why in public.

The surprising thing about Mr King's letter is not that he had to write it but that it has been such a long time coming. A decade ago, such a public fessing-up for failing to maintain stable prices seemed likely to happen quite frequently, given the past volatility of inflation. In 1998 Charles Bean of the London School of Economics, who later became the bank's chief economist, calculated that inflation was likely to be more than a percentage point away from the target around 40% of the time.

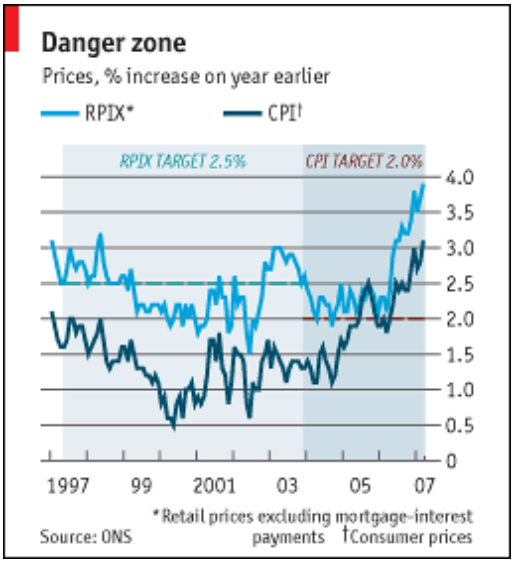
The reasons for the unusual quiescence of inflation over the past decade are keenly debated. Naturally, Mr Brown, and indeed the bank, would like to take much of the credit for an economy which has been more stable all round, continuing to grow quarter on quarter throughout the period. Some is certainly due. The regime has been much more successful than previous ones, though central-bank independence put the capstone on reforms that started with the introduction of inflation targeting soon after Black Wednesday.

But the renaissance of price stability in Britain formed part of a wider international trend towards lower inflation. One reason was that central banks around the world regained the grip on monetary policy that they had let slip in the 1970s. Another had to do with globalisation, which has helped to restrain inflation by keeping down the prices of manufactured goods.

One worry now is that these wider influences have become less helpful. Britain is feeling the impact of the loosening in global monetary conditions which occurred when America kept interest rates too low for too long after the information-technology boom collapsed, causing a recession in 2001. And rapid growth in countries such as China has caused a steep rise in commodity prices, most notably the doubling in world oil prices since 2004.

At the same time, Britain's very success in maintaining consistent growth over the past decade means that there is now little spare capacity. As a result, domestic inflationary pressures have started to build up. Fuelled by higher bonuses, average earnings growth picked up to 4.6% in the three months to February compared with the same period a year before. Although pay deals for the year ahead have been more restrained than feared, the settlements are still more generous than before. More worrying, firms now seem able to push through price increases to a greater extent than in recent years.

All this means that the surge in inflation would have been cause for concern even if it had not triggered the long-awaited letter. In it, Mr King acknowledged that the rise in CPI inflation to 3.1% from 1.8% in the year to March 2006 was broadly based. He said that capacity pressures had increased and that the “pricing climate” for businesses had become “somewhat easier”.



However, the governor also pointed out that some of the factors pushing up inflation in March might turn out to be temporary. For example, the prices of furniture and furnishings rose by almost 10% between February and March, a record increase, which contributed to the jump in annual inflation. If that led to a host of special offers over Easter, then it is likely to push down inflation in the year to April.

The most crucial sentence in Mr King's letter may have been that this week's inflation news was “unlikely to alter the broad picture painted” in the February *Inflation Report*, when the bank published its quarterly outlook. That suggests two things. First, the bank signalled then that it would need to raise interest rates by a further quarter-point before too long. Although its monetary-policy committee (MPC) voted this month by seven to two to keep the base rate at 5.25%, a rise to 5.5% when it meets on May 10th now looks a done deal.

Second, the bank remains pretty confident that consumer-price inflation is lapping close to its high-water mark and will recede to around 2% by the end of the year. The main reason for this confidence is that gas and electricity prices, which climbed exceptionally fast in 2006, are expected to drop sharply over the next few months.

Still, the bank remains concerned about underlying inflationary pressures. Monetary growth has been rapid and there has been a resurgence in house-price inflation. The bank is likely to remain hawkish until it is sure that it has stifled any rebirth of an inflationary mind-set. As Mr King said this week, the MPC “must ensure that inflation expectations are anchored on the 2% target. It is important to prevent that anchor from dragging.”

The base rate has already risen from 4.5% last summer to 5.25%. In late March several City economists thought that it would be held at this level through to the middle of the year. It now seems quite likely to reach not just 5.5% in May but 5.75% by the autumn.

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Royal Navy

Sunset seas

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From The Economist print edition

The Senior Service is feeling unloved

THESE are fretful times for the Royal Navy. With the empire gone and the cold war over, the British sailors who once ruled the waves are struggling to define their role. In Iraq and Afghanistan these days, the army is in the limelight.

It is not that the navy has nothing to do. A quarter of a century after the Falklands war with Argentina, it keeps a watchful eye on the south Atlantic. It maintains a reassuring presence off west Africa and in the Caribbean (where it helps with hurricane relief and drugs interdiction). The navy patrols the waters around the Middle East seeking terrorists and weapons; its marines have just come back from a tour in Afghanistan; Harrier pilots help support ground forces; and, in Iraqi waters, the navy protects Iraqi oil terminals.

But it is a strain to do these things. Ships in less crucial arenas are being stripped of personnel, equipment and spares to strengthen vessels in the Persian Gulf. Worse, Iran's almost casual abduction of 15 British naval personnel last month and, after their release, the decision to let some sell their stories have tarnished the reputation of the Senior Service. This at a time when it is struggling to defend its budget before a spending review this summer that will determine its shape from 2008.

The number of destroyers and frigates, the workhorses of the navy, has declined from 49 during the Falklands war to 25. More reductions loom. The head of the navy, Admiral Sir Jonathon Band, gave warning in February that further cuts could reduce the fleet to the status of the “Belgian navy”—harsh words for the heirs of Horatio Nelson. Sir Jonathon said (then half-denied) he wanted a 30% increase in his operating budget, and assurances that two new aircraft carriers would be built.

More warning horns were blared this week. Writing in the journal of the Royal United Services Institute (RUSI), a British defence think-tank, Sir Jeremy Blackham, a former deputy chief of the armed forces, and Gwyn Prins, of the London School of Economics, say Britain “risks losing irretrievably the capacity which it has had since before Nelson, but especially from the time of Trafalgar to the present, to be a decisive force across the globe”.

The navy trumpets the construction of a new generation of Type-45 destroyers for air defence and the arrival of new amphibious assault ships. But the RUSI paper claims that the commissioning of new frigates and destroyers is slower than at any time since the 1920s.

True, the new ships are bigger and more capable than the ones they replace, but the authors argue that quantity has a quality of its own. They want the 17 current frigates (built to hunt submarines) to be replaced eventually with at least 30 multi-role ships. Only this number would give Britain a “global footprint” and preserve the country's capacity to build warships.

This is wishful thinking, of course. Defence spending is unlikely to get more than a modest increase in the coming budget. There are more pressing demands than the navy's, including support for the troops in Iraq and Afghanistan, and improved pay and conditions for servicemen.

Yet the navy has urgent work to do. Two inquiries have been ordered into the hostage fiasco in the Persian Gulf. Some weaknesses are already apparent, not least the need for better training and protection for naval boarding parties. The Ministry of Defence said it had taken 22 minutes for the mother ship, *HMS Cornwall*, to despatch a helicopter after losing contact with its kidnapped personnel. So forget futuristic new frigates for now. What Britain may need most urgently is some small, fast patrol craft—gunboats, in other words.

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Broadband

Pottering along

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Dire warnings about British broadband should be taken with a grain of salt

THE British love to moan, especially about the supposedly decrepit state of their nation's infrastructure—dirty hospitals, draughty schools and doddery transport networks. This week the Broadband Stakeholder Group (BSG)—a government-and-industry-sponsored talking shop—served up another reason to be gloomy in a report which warned that Britain's internet services were heading for trouble. National competitiveness will suffer without oodles of investment in new, high-tech and high-speed internet connections, the report predicted. Britain's infrastructure could be outdated by 2012.

It is true that British broadband connections are, by international standards, already somewhat sedate. A typical residential user can expect speeds of between two and eight megabits per second (Mbps). His counterpart in higher-tech South Korea, Japan or even parts of Paris, can get up to 50 times the speed, thanks to the high-speed fibre-optic lines that telecoms firms are laying directly into people's homes. Such speeds will be necessary in the near future, says the BSG, if Britain is to retain its position in the world economy.

The trouble is that high speeds come at a high cost. Matt Yardley of Analysys, a research firm, reckons that running fibre-optics to a Parisian home costs €1,000-1,200 (£675-810). In less-densely populated London, the cost would probably be higher. The BSG says that it could cost around £9.5 billion ($19 billion) to provide fibre-optic cables to 90% of Britain's homes. That's too much for BT, Britain's telecoms giant, which is planning to spend £10 billion over the next five years upgrading the central parts of its network. That will allow lucky customers who live near exchanges to reach speeds of around 24Mbps—faster than today, but nothing like state of the art.

Fortunately for the future of the British economy, many analysts are sceptical of the benefits of the dizzyingly high speeds advocated in the report. Mr Yardley points to Hong Kong, where most users seem content with a 10Mbit connection even though 100Mbit lines are available for only twice the price. Video on demand seems the only residential use for such high-bandwidth connections. But Sky, a satellite-TV firm, and NTL, a cable-based rival, are already keen to provide this over their existing infrastructure.

As for businesses, which could presumably find more productive uses for bandwidth than snazzier TV, most are already fairly well-served by a specialist market for dedicated, fast internet lines. “The City of London is one of the most wired places in the world,” says Leonard Waverman of the London Business School, although he argues that smaller firms in smaller towns may not be as well-supplied.

In any case, forecasting bandwidth demand is notoriously tricky. Several big technology firms lost their shirts early this century when assumptions about growth in internet traffic proved wildly optimistic: much of the capacity they invested in lies dormant today. “The BSG is right to ask ‘what next’,” says Richard Mahoney, an analyst at Ovum, a technology consultancy. “But I don't think we should just build bandwidth for the sake of it and then decide what to do with it later.”

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Jane Austen

Portrait of a lady

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Is this Britain's most-loved author?

AP/Christie's

No plain Jane she

FEW writers are as revered as Jane Austen. According to a poll in March, “Pride and Prejudice”—a romance without a single kiss—is the book Britons love most. Austen adaptations abound: the BBC is filming a new version of “Sense and Sensibility” written by Andrew Davies, whose 1995 “Pride and Prejudice” was a global success, and ITV has just shown three of her other five novels.

But Janeites, as the author's most avid devotees style themselves, have few relics to worship. Most of her letters were burned on her death, and a single sketch by her sister, Cassandra, showing her purse-lipped and in her night-cap, is the only generally acknowledged image of her face. That picture, now hanging in the National Portrait Gallery in London, depicts a woman so plain that it is often re-worked for book covers.

That is perhaps why there has been so much interest in a portrait by Ozias Humphrey, a minor society artist of the 18th century, which was auctioned in New York on April 19th by Christie's as *The Economist* went to press. According to its owner, Henry Rice, a sixth-generation descendant of Miss Austen's brother Edward, it shows Jane at about 14, and was commissioned by a great-uncle to help her marriage prospects.

Not everyone is convinced that the picture is in fact of Miss Austen. The National Portrait Gallery has repeatedly declined to purchase it, citing supposed anachronisms in the subject's costume and a tax stamp on the canvas. Its pre-auction valuation reflected this uncertainty: although $400,000-800,000 (£200,000-400,000) is far more than any of Mr Humphrey's works has achieved before now, a buyer who believed he was looking at Miss Austen would surely be prepared to pay more.

The doubts expressed in London are one reason why the portrait was sold in New York. Another is that Americans are as keen on Miss Austen as Britons are. The BBC's “Pride and Prejudice” was co-produced by A&E, an American cable channel, and another such channel, HBO, co-financed ITV's adaptations. Versions of her books for the big screen have relied on American cash and not a few American actors.

At the heart of each of the novels is a heroine—and a marriage. But unlike her heroines, Miss Austen remained single, and some wonder whether that sour-faced sketch by her sister tells us why. “Becoming Jane”, a recent Hollywood production, presents a different, highly speculative, explanation: a beautiful girl has her heart broken by a flighty Irishman and turns to writing for solace.

Miss Austen herself rated her heroines' other attributes more highly than their looks, on which she rarely spends more than a few unspecific words. The rest are devoted to what these women think and say. Which is also what matters most about Jane Austen.

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Retailing buy-outs

A tale of two bids

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Private-equity firms are having to work harder for their money

FOR more than a century J. Sainsbury and Boots have been the two landmarks on Britain's high street that make towns feel complete and smaller villages envious. Both the grocer and the chemist bear the names of their founders. Unusually among British firms, they have dominant individual shareholders. Both, although they are well run, are stuck in the uncomfortable middle-ground of a retail market that is rapidly polarising between those that sell cheap goods and those that sell luxurious ones. And both have been stalked in recent weeks by Kohlberg Kravis Roberts (KKR), an American buy-out firm.

Now their ways are parting. Sainsbury's was reprieved as a publicly listed company on April 11th when CVC, the last of its suitors, withdrew from bidding. Alliance Boots, on the other hand, looks likely to be bought by KKR, which has teamed up with Stefano Pessina, the chemist's executive deputy chairman and biggest shareholder. Though the firm has opened its books to more recent bidders—Terra Firma, a private-equity outfit, together with the Wellcome Trust, a charitable foundation—KKR was expected to announce its bid as *The Economist* went to press.

To critics of private-equity firms who contend that their success is due to asset-stripping and piling on debt—the equivalent of a gambler borrowing to double his bet—the £10 billion bid for Sainsbury's seemed the perfect stereotype. The firm has a strong balance sheet and property worth some £8 billion that could have been sold to generate quick returns. Boots looked less obvious. It owns only a small proportion of its stores and selling these might raise little more than £1.5 billion.

What makes Boots attractive is that it operates in a far less competitive field than Sainsbury's. The supermarket is struggling to hold its ground against a much larger rival, Tesco, which has seized almost a third of Britain's grocery market and announced a 13% increase in pre-tax profits, to £2.5 billion, this week. Although Sainsbury's is defending its 16% share of the market, it has done so by cutting margins and sacrificing profitability. Selling its shops and loading it with debt could weaken the firm fatally. This is still a pressing argument, as Robert Tchenguiz, a property mogul, has recently built up a 5% stake in Sainsbury's and wants the company to spin off its properties.

Boots, by contrast, is the clear leader among chemists and is managing to fend off competition from other quarters—mainly supermarkets—by moving a bit upmarket. Since its merger with Alliance Unichem last year, it has been cutting costs and expanding abroad, hoping to profit from the deregulation of retail pharmacies in the rest of Europe. The bidders believe they can do the same thing more quickly with the firm out of the public eye. They will have to if they want the £10 billion bid to pay off, because financial engineering alone will not produce the big profits that private-equity investors demand.

Not everyone agrees that (other than tinkering with the balance sheet) private-equity ownership usually unlocks more value than can be achieved under public ownership. But private-equity buyers themselves are making big bets that it can. An independent appraisal of Boots by Greenhill & Co, an investment bank, is understood to have valued the firm at about £1 billion less than KKR is offering.

Even if the buyers are right, the profitability of private-equity deals is coming under pressure. Analysts reckon that the Sainsbury's and Boots bids would generate returns on the private-equity investments of only 15-18%, far less than such deals were expected to generate even a year ago. One reason is that investors have pushed up the values of most possible targets. “People are bidding up mediocre assets hoping that a greater fool will come along to buy them,” says Tim Price, of Union Bancaire Privée, a bank. Another is that the cost of borrowing in Britain is rising.

Yet the flood of money into private-equity funds continues unabated. With firms pursuing ever larger and riskier deals, some will undoubtedly go bust. Normally that would be of little consequence, for capitalism is about failure as well as success. But there is growing public disquiet about the power of private equity, which translates into political unease. Last week, for example, Gordon Brown, the chancellor, reportedly

delayed the sale of the state-owned bookmaker, the Tote, to a group including private-equity buyers. Against this background, the collapse of even a single iconic firm could lead to new rules on disclosure and governance that would tie the industry's hands.

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The London Marathon

Give it everything you've got

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Why London raises more than anyone else—and why charities are squabbling

FROM the starting lines of Sunday's London Marathon, the 26.2 miles (42.2 km) ahead will seem an awfully long way. Yet the 36,000 runners lacing up their trainers already have an impressive feat behind them. Whatever athletics records are broken, London's runners are world-beaters in the fundraising stakes.

Last year's slog generated £41.5m ($72.2m) for charity—five times more than the New York City Marathon (which has a couple of thousand more runners) and six times more than the Boston Marathon. London's organisers claim it is the world's biggest annual fundraising event.

This is partly thanks to its admissions system. All big marathons are heavily oversubscribed, and organisers ration the places differently. In Boston most runners are selected for their speed: 18- to 34-year-old men, for example, need to have run a previous marathon within three hours and ten minutes. In New York most places are given out by lottery. London, meanwhile, sells 14,000 places to charities, which recruit runners who promise to raise cash for them. Other marathons do this too, but none so widely: last year New York reserved 3,500 places for charity. But Manhattan is getting more Londonesque: this year the figure will be nearer 5,000.

London's charity places are wildly popular, since they cost just £300 and yield more than £2,000 on average. But all 14,000 were sold off years ago via “golden bonds”, which reserve places for five years and are renewable. Some charities are clinging on to hundreds of places. Those left out have complained bitterly: the Male Cancer Awareness Campaign appealed to the Office of Fair Trading, without success.

Dave Bedford, the race director, points out that distributing places evenly among all the charities that want them would mean that each got just one place every few years. Better to let fewer charities build up experience, he argues. This argument took a hit when *Third Sector*, a charity journal, revealed that some charities were selling their golden bonds to others for more than double their face value. This year sees a compromise: charities on the waiting list have been offered “silver bonds”, which guarantee one place every five years.

Yet London's real strength is the money raised by those running without charity places. “People's first question used to be: ‘What time did you do?’ Now it's ‘Which charity was it for?’,” says Mr Bedford. This year 78% of all runners are raising money, he says. Sponsorship of this sort is peculiarly British, according to Vicki Pulman of the Charities Aid Foundation. Overall, Britons give less to charity than Americans. But a sweet e-mail from a marathon-running nephew, with a link to a site such as Justgiving.com (a sort of fundraising MySpace), is more likely to provoke a dollop of cash than it is elsewhere.

A look at the field, which reliably includes plenty of runners in fancy dress, shows that not everyone is out to beat his personal-best time. Yet sporting achievement seems to flourish among the giant testicles and pantomime camels: the London course, known as one of the fastest, is home to the women's world record.

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Mental illness

A spoonful of sugar, or else

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Why the most-debated bill of the past decade now deserves a fair hearing

LABOUR is often accused of rushing through ill-considered laws whenever its appearance of competence is cracking. The mental-health bill, which came back to the House of Commons from the Lords this week, hardly fits this pattern. Discussions about a new law began nine years ago, not long after Michael Stone, who suffered from a personality disorder, killed a mother and her daughter with a hammer while they were walking down a lane in Kent. Since then the bill has been introduced, thrown out, brought back, re-worded and tinkered with. And yet it still sets the Mental Health Alliance, which represents 80 organisations that think the bill represents a sinister grab at civil liberties, against the government, which says that those who oppose it are guaranteeing a “right to suicide” by allowing patients of precarious stability to go untreated.

Two questions are at the root of the conflict. The first is whether patients who are able to make decisions about their own treatment should sometimes be compelled to take medication. The second is whether people with illnesses that may not respond to treatment should be forced to try anyway. The answer to the question of how far the state should deprive people of their liberty for their own sake and for the sake of everyone else is likely to affect mental-health care not just in England (Scotland and Wales have different systems), but in the rest of Europe too, where England is seen as a model of how to look after the mentally ill.

Sick people can be treated either in hospitals or outside them. Britain decided earlier than elsewhere that outside was better. Care in the community, as this is known, has meant a reduction in the number of beds in grim psychiatric hospitals from 150,000 in 1950 to 30,000 now. It was underfunded to begin with, and “the community” sometimes meant a flat next to a motorway rather than a cosy family home.

But things have improved over the past ten years. Whereas other west European countries tend to have a single community mental-health team, England has three: one to go out and look for people who have a history of illness; another that concentrates on young people who have become ill for the first time; and a third to treat people at home. Matt Muijen, who studies different systems from his vantage point at the World Health Organisation, reckons that “England is ten years ahead of the rest of Europe.”

There are still plenty of problems. Lots of mentally-ill people end up behind bars: they constitute some 80% of female prisoners, according to the Howard League, a charity. And patients being cared for at home frequently fail to take their medicines, some of which can have unpleasant side effects. This often leads to a crisis, or worse: some 1,200 patients kill themselves each year. There is also a risk to others as schizophrenics, for example, account for 1% of the population and 5% of murders. When care at home breaks down, the mentally ill go back to hospital and the cycle begins again.

One of the bill's proposals, the introduction of Community Treatment Orders, aims at breaking it. A patient who is deprived of his liberty and taken into hospital, regains it on release. Under the government's plan, a psychiatrist would then assess the patient and decide if nurses should be given the power to try to make sure he takes the pills prescribed, sending him back to hospital if he does not. Each order would be reviewed by a tribunal each year. Doctors in most states in America and in Australia already have this power. Psychiatrists in Scotland gained it in 2005.

But compelling patients to take medicines when they may be well enough to decide they do not want to makes doctors nervous. Some patients may prefer the ups and downs of their ill selves to their humdrum medicated versions. The provision in the bill for psychiatrists to supervise people with personality disorders that, unlike schizophrenia or depression, may not respond to treatment, is controversial too. Most psychiatrists are aware that the history of their profession includes a spell as gaolers to the awkward and the extraordinary and do not want to reprise that role.

Yet the case for the bill is strong enough to sway some libertarians. For the choice is not between treating

patients in institutions and allowing them to roam free, but between treating them in hospital or outside. If the latter is to be made to work, some of the compulsory features of hospitals may have to come into the home.

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Bagehot

To run or not to run

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David Miliband will not challenge Gordon Brown this summer. But things could change

Steve O'Brien

NO AMOUNT of flattery or blandishments now seems likely to turn the head of David Miliband. Most of what used to pass for Fleet Street would like nothing better than for the 41-year-old environment secretary to declare himself a candidate for Labour's leadership when Tony Blair finally gets round to announcing a vacancy in early May, if only to avoid the uncontested coronation of Gordon Brown, the chancellor. But on the basis of a pretty unambiguous denial this week, Mr Miliband seems determined to disappoint his fans.

If, as Shakespeare suggested, there is a tide in the affairs of men which taken at the flood leads on to fortune, Mr Miliband seems content to miss it this time round. Whereas the rise of Barack Obama in America shows the potential rewards of boldness, Mr Miliband appears to shrink from the challenge, and risks going down in history as a man who had the chance of great things but fluffed it. This is what happened to Michael Portillo, then a young Tory star, when he failed to take on John Major for the leadership of the Conservative Party in 1995.

Mr Miliband too may yet find that he never again has as good a shot at being prime minister. But there are also reasons for thinking he was right to conclude this time that discretion had more going for it than valour. He never had more than an outside chance of beating Mr Brown, and, had he tried and failed, the chancellor might well have proved a dangerous enemy.

Those who have tried to talk him into it, many of whom are better known for their deep antipathy to the chancellor than for their goggle-eyed admiration for the environment secretary, see things differently. Mr Brown's campaign is no more solid than a house of cards, they hold. All Mr Miliband needed to do was to announce his candidacy and he would have been transported to success on an unstoppable wave of momentum. They believe that, offered the choice between presentable, fresh-faced change and depressing continuity under gloomy Mr Brown, the party would have rallied to Mr Miliband's banner with alacrity.

This is not a wholly incredible thesis. It is true that Mr Brown's stock has fallen precipitately of late as his past has caught up with him in various alarming ways. This week he has had to endure not only the embarrassment of receiving his first letter from the governor of the Bank of England explaining why inflation has breached its upper limit but also a Commons debate on his ill-fated decision ten years ago to remove a tax break from pension funds. In a fortnight he faces the humiliating possibility that Labour will be rejected in regional elections by the voters in his own Scottish heartland.

Yet the mood of the Labour Party is one of resignation rather than panic. As one senior backbencher put it this week, “We know that a storm is coming, but we just have to weather it.” The same defiance was noticeable during the pensions debate on April 17th. Mr Brown came out swinging, was noisily supported by his own MPs and, in the judgment of impartial observers, gave his opposite number, George Osborne, a good mauling.

A further difficulty for those who think Mr Miliband could win if he dared is the structure of Labour's electoral college, which must decide on the new leader. Votes are split equally between MPs, affiliated trade unions and ordinary party members. Of these, MPs are likely to be the most easily persuaded by a new face that looks more electable because they fear for their seats. But by most calculations Mr Brown already has 200 of Labour's 354 MPs in the bag. And according to recent polling he has big leads in the other sections of the electoral college too.

But the biggest obstacle remains the reluctance of the candidate himself. Close to the heart of Labour power since he was barely out of nappies—first as Mr Blair's policy chief and then as a fast-rising young minister—he has been in the cabinet itself only since the general election in 2005. For all his political intelligence and experience, his almost ludicrously boyish appearance, unpretentious affability and air of polite curiosity make him seem (and perhaps feel) even younger than he is. The son of Jewish left-wing intellectuals who sent him to a north London comprehensive school, Mr Miliband has none of David Cameron's easy Etonian swagger, though he and the Tory leader are roughly the same age. And going head-to-head with Mr Brown for the leadership of his country is a far tougher proposition than taking on David Davis, the shadow home secretary, for the leadership of his party as Mr Cameron did.

To the aid of the party

There are at least two other important things holding Mr Miliband back. The first is that he is reluctant to be the candidate of the anyone-but-Brown brigade. Unusually for a member of this fractious government, he has maintained good relations with both camps (helped, no doubt, by his younger brother, Ed, who is one of the chancellor's intimates). He believes that the feuding has done immense damage, and to be instrumental in prolonging it holds no appeal for him.

The second is that Mr Miliband may be more than a little ambivalent about whether he wants the top job. He is married to a concert violinist and has an adopted two-year-old son. He has been close enough to power for a decade to know the price that seeking and getting it extracts. For a cabinet minister, something like normal life remains possible if you are a well-grounded sort of chap. For a prime minister no such possibility exists.

But if Mr Miliband is almost certain not to challenge Mr Brown for the leadership this summer, another intriguing possibility exists in the minds of a good many Labour MPs. What if is there is no “Brown bounce” and, after a year or so as prime minister, Mr Brown is seen to be taking Labour towards a cataclysmic defeat? If a call were made then to come to the aid of the party, Mr Miliband knows he would have to answer it.

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The World Bank

Will there be life after Wolfowitz?

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Reuters

Unloved and demoralised, the bank still has work to do, especially in Africa

WHEN Paul Wolfowitz was named as president of the World Bank just two years ago, optimists compared him to another of the Pentagon's controversial sons, Robert McNamara. Perhaps, like the mastermind of the Vietnam war, Mr Wolfowitz would quit the rubble of a failed conflict to build a righteous empire of aid. But now Mr Wolfowitz is likened less to a benign emperor than to Caesar's suspect spouse.

As recrimination swirls around him, squabbles over his future are dragging on. As *The Economist* went to press, the bank's executive directors—civil servants who oversee the bank on behalf of member governments—had yet to pass judgment on the deal Mr Wolfowitz struck for his girlfriend, Shaha Riza, in August 2005. A bank employee, she was not allowed to keep her job when he took his. Prompted by his directors, Mr Wolfowitz posted Ms Riza outside the bank—and gave her a promotion. The terms he set proved too rich for bank staff, and some donor governments, to stomach.

At this month's spring meetings, the 24 ministers who steer the institution showed both indignation and indecision. The Americans who appointed Mr Wolfowitz have not abandoned him, and the European donors who want him out seem to will the end but not the means. Mr Wolfowitz is so far refusing to make it easy for them. He seems unmoved by an unprecedented ministerial communiqué, voicing fears about the bank's credibility and the motivation of its staff.

Both have been badly damaged. In their rage, the staff have shed all deference and discretion. Some heckled their president to his face in the vast atrium of the bank's headquarters; others have written to bank directors urging them to seek his resignation. One of his two deputies, Graeme Wheeler, has reportedly advised him to jump, and other senior staff are considering leaving if he doesn't.

Why did the bank's people desert their boss so dramatically? Some insiders have known for a while that Ms Riza left on cushy terms. In January 2006, a whistleblower calling himself “John Smith” sent an e-mail to the bank's directors, complaining about the $180,000 salary the bank was paying her in her new job at the State Department. The board's ethics committee looked into it, and found the e-mails told them nothing new. Mr Smith warned them of a “trial by the media” if they did not act. Sure enough, the *Washington Post* last month reported that Ms Riza was now getting $193,590, more than the secretary of state. Disgruntled staff finally had the tip of a spear they had wanted to throw at Mr Wolfowitz for some time.

He came to the bank tainted by his role as a champion of the Iraq war. Opposition to the war, he still thinks, explains much of the hostility to him. “For people who disagree with things they associate with

me in my previous job," he said on April 12th, "I am not in my previous job."

The truth is perhaps more subtle. Some of the bank's professionals complain that he is too secure in his own insights, unimpressed by the accumulated wisdom of the institution. That intellectual temperament may explain both his enthusiasm for invading Iraq and his lack of support in an institution that prides itself on its expertise. Moreover, if Mr Wolfowitz entered the bank expecting to fight his corner against a staunchly anti-war staff, his expectation may have been self-fulfilling. Certainly his underlings dislike the sectarian style Mr Wolfowitz seems to share with the man who appointed him.

If Mr Wolfowitz is an overconfident thinker, he also seems an insecure manager, too impressed by bumptious aides. The career staff resent his richly rewarded inner circle, drafted in from his past. They say Kevin Kellems, his press flak, and Robin Cleveland, his right-hand woman, make too much money (about $250,000 a year, tax-free). Staff are fond of sharing stories about Ms Cleveland's aggressive style, some of which no doubt improve in the telling. "I am very focused," she counters, exasperated by the rumour mill. "I am not asking for sympathy so much as fairness," but "no one cares about that at this point."

Two intimates hardly constitute "an army of Bush administration retreads", as Mr Wolfowitz points out. But some of his attempts to widen the gene pool have proved disastrous. According to leaked e-mails, Juan José Daboub, a former conservative finance minister of El Salvador named last year as the bank's managing director, last month ordered that all reference to family planning be expunged from the bank's aid strategy for Madagascar. This is a country where, the bank said in 2004, the use of modern contraceptives is stagnant and sexually transmitted disease abounds. "I am biting my tongue to avoid saying something impolitic," a bank official wrote at the time.

Demoralised, the bank is also compromised. Mr Wolfowitz has espoused a policy of "zero tolerance" towards graft and corruption in the bank's staff and activities. The "actions of even a very small number of individuals can tarnish the reputation of an entire organisation," he wrote in the latest report of the bank's internal investigations unit. The unit last year found two people guilty of a conflict of interest; both were banned from bank employment. Moreover, the bank allocates aid to the poorest countries according to a formula in which "governance", broadly defined, plays much the biggest role. Mr Wolfowitz's underlings must rate a country's state apparatus on a scale of one to six, and justify their scores to the government under scrutiny. Where people are promoted according to personal ties rather than merit, the bank gives a score of only two out of six; where ombudsmen and auditors exist, but lack authority, the bank gives a score of just three. So by its own measure, the bank might not now deserve much support.

See you, or pass

That is a sad state of affairs, because the bank needs support. In June it will turn to donors at a gathering in Mozambique, asking them to pledge money to its self-loan agency, the International Development Association (IDA), for the three years starting in mid-2008. If it is not to shrink in real terms, it must raise at least $18.4 billion from 42 governments, each of which wants to see the others' cards first.

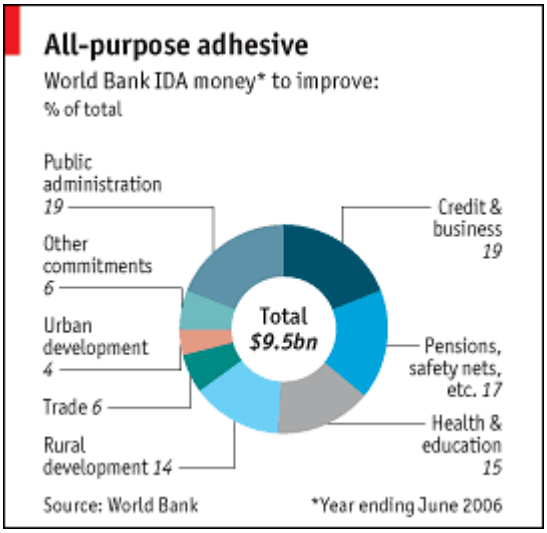
That sum is only about the same as the bonuses paid last year in the City of London. But even before this week's scandal, some donors appeared stand-offish. Indeed, as of January 31st Mr Wolfowitz's political sponsors in America had yet to pay the bank $525m they still owed from previous funding rounds (though some of that money is in America's recently passed 2008 budget).

Mr Wolfowitz apologised for his indiscretion only once during the meetings. But he twice chided bank donors for their own lapses. They "are in danger of not fulfilling their promises" to double aid to Africa, he said on April 16th. That "would be a tragic mistake", he noted three days before.

The begathon is haunted by one of Mr Wolfowitz's early triumphs. In September 2005 the bank agreed to forgive the debts of many of its poorest borrowers. Mr Wolfowitz then helped persuade the bank's donors to compensate it "dollar-for-dollar" for debt repayments it would no longer receive. That will add another $6.1 billion for this funding round. But America, Canada, Japan and Italy among others are being slow to meet these commitments.

The danger is that the president's troubles will provide unsympathetic governments with an alibi for backsliding. If the

bank lacks motivation and credibility, they will say, can it be as effective as it should be? And if it cannot, should not a responsible donor put its money elsewhere? There are now over 230 international organisations, funds and initiatives, the bank calculates. The United Nations agencies and the European Commission are now bigger donors than IDA (although not in the poorest countries). And Hilary Benn, Britain's development minister, said this month that regional lenders, like the African Development Bank, have more “legitimacy” in the eyes of the governments they help.



The bank manages “common funds for common purposes”, as its president likes to say. That is a handicap when it peddles itself to donors. The first lesson of fundraising is limit yourself to a single cause. The American President's Emergency Plan for AIDS Relief, one of many funds now dedicated to a narrow aim, does what it says on the tin. IDA, on the other hand, is the sum of 82 strategies, each supposedly cooked up by poor countries themselves. It pays for hundreds of projects, from demobilising gunmen in Burundi to, yes, promoting contraception in Madagascar.

Harder to raise, such monies are nonetheless more useful to poor countries than earmarked dollars. In Rwanda, for example, HIV/AIDS is contained, carried by 3% of the population. Other killers, however, claim the lives of almost 12% of infants before their first birthday. And yet $46m of aid to Rwanda's health sector is earmarked for AIDS, whereas only $1m goes to fighting childhood illnesses of all kinds.

When IDA was invented in the 1960s, it was one of about a dozen donors in the average poor country. Now it jostles with over 30. This can put an intolerable burden on a country's slim corps of capable civil servants. Each donor exploits the best people to ensure the success of its own projects, lest another donor exploit them first. The bank may be no better than others at building clinics or laying roads. But in a hopelessly fragmented aid industry, “IDA is the glue that holds all this together,” as Mr Wolfowitz said.

As they perused memos and messages from the Riza affair, journalists may have missed another fact released by the bank. The world's poor, judged by its $1-a-day yardstick, now number fewer than 1 billion, down by over 250m since 1990. If only Mr Wolfowitz, or his replacement, could win as sweet a settlement for IDA as he got for his friend, that total might fall a bit further. At the end of the affair, that is what will matter most.

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Trouble at the OECD

An angel flies into some flak

Apr 19th 2007 | LONDON AND PARIS
From The Economist print edition

A think-tank's Mexican boss steers his staid agency into turbulent waters

THE travails of Paul Wolfowitz are being regarded with trepidation in the upper ranks of the Organisation for Economic Co-operation and Development (OECD) at its fine chateau in the western corner of Paris. “Watching what has been going on in Washington, I was wondering if anything would come out about what is going on at the OECD,” says one of a handful of senior directors who have left in the turbulent months since the arrival of Angel Gurría as secretary-general.

AP

Señor Scissorhands

Whereas the World Bank story is all about whether or not Mr Wolfowitz did or did not break some rules, the OECD events suggest an organisation that seems to be lacking in modern rules and practices when it comes to its own internal workings. So a 30-nation think-tank, devoted to promoting best practice in governance, has governance issues of its own. Concern over the lack of transparent competition in filling some appointments led the Canadian delegation to draw attention, in a letter to Mr Gurría dated April 4th, to the fact that “the OECD secretariat and its senior management must embody, and be seen to embody, the very highest standards of good governance. Anything less can threaten the integrity and credibility of the organisation.”

Mr Gurría made his name as Mexico's finance minister in the late 1990s, steering it to health with spending cuts that earned him the nickname Señor Scissorhands. But now some senior figures, including some OECD ambassadors from north European countries, wonder where the OECD is heading with this ebullient figure at the helm. They fear the staid old body, which churns out economic analysis and recommendations, may drift into dangerous waters. The contrast with his predecessor, a very Canadian lawyer, Donald Johnston, is stark. Mr Johnston spent a decade trimming waste and extravagance, like the tax-free supermarket enjoyed by the 2,200 staff on top of other normal expatriate perks, such as school fees.

Careful spending

Mr Gurría insists that he too focuses on spending money carefully. “Taxpayers want to know their [money] is being spent where it's best,” he said recently. Really? Before he took office, a decision was taken to refurbish the top man's 480-square-metre (5,000-square-foot) apartment in the poshest bit of the swanky 16th *arrondissement* of Paris. The original cost estimate of around €600,000 ($815,000) grew to a final cost of €733,000. Even that was not the actual total, because some €300,000 was shunted off to other budgets. A document that *The Economist* has seen claims the upgrade “was

necessary to preserve the value of the [OECD's] asset". Chris Brooks, head of communications at the OECD, says Mr Gurría had no involvement in the refurbishment, but nevertheless the cost escalation happened on his watch.

The OECD wants to convert itself from a rich countries' club into a "globalisation hub", gradually absorbing more countries. Mr Gurría was chosen not least because he warmly embraced a drive, led by Britain's delegation (at least according to its ambassador), to modernise the agency's employment practices—for instance, by bringing more transparency to top-level jobs.

But Mr Gurría's many critics are appalled at the way he handled the appointment of a new executive director to run the OECD's operations. The original internal candidate, nominated by Mr Gurría's predecessor with Mr Gurría's backing, saw the job offer withdrawn. Mr Brooks says this was because some ambassadors objected to the process by which the candidate had been selected. Now Mr Gurría has opted for Patrick van Haute, the Belgian ambassador, whose appointment as executive director was announced on April 18th. Again, some ambassadors were startled: "not the most compelling possible candidate," said one.

Technically Mr Gurría can appoint anyone he wants. But some of the ambassadors were furious that the selection of a candidate for one of the most sensitive posts at the OECD was not being conducted as transparently as the new human-resources policy, due to be introduced at the end of this year, would require. Although there was no competition for the job, Mr Brooks says the process met the best international standards.

The ambassadors, who form the governing council of the OECD, summoned Mr Gurría to an extraordinary meeting last month to discuss this and other appointments. To some these ran the risk of a perception of nepotism and cronyism: his daughter was offered a job, as was the husband of Gabriela Ramos whom Mr Gurría plucked from running the Mexico office to be number two in his private office in Paris. In the process, Mr Gurría upgraded the post that Mrs Ramos was taking up.

By the time Mr Gurría met the ambassadors for a second meeting four days later ("to clear the air", according to one participant), the daughter had stepped down. "There have been concerns about his judgment," says another ambassador. As for Mr Ramos, Mr Brooks says he was more than qualified for the job.

Many of the envoys had been unhappy at the pay deal Mr Gurría landed on top of the rent-free residence. His basic pay of €183,000 was boosted by a confidential package: an expatriate's allowance of €33,000 (unprecedented for the top man), a household allowance of €11,000 and a "representation" allowance boosted to €50,000. That latter can be spent as he thinks best and is not subject to audit. A rather loose definition of "normal expenses" led to some raised eyebrows among officials who saw an invoice for a wedding anniversary dinner for Mr Gurría with his wife, according to a document seen by *The Economist*. Officials had pointed out to him that this type of expense could not be reimbursed. A spokesman says these were personal expenses and were not processed.

Officials were also startled at his appetite for corporate hospitality. Not satisfied with the initial allocation for the France-Mexico football match last May, offered by Eugênio Minvielle, boss of Nestlé France, the food company, Mr Gurría's office asked for another four tickets so that his wife and daughter could go, along with Mr and Mrs Ramos. At least this is what e-mails seen by *The Economist* show.

His largesse extends to his home country. When South Korea wanted a special OECD event held last September in Seoul to celebrate ten years' membership, it had to pay the fares for the experts flying out from Paris. But a special OECD-led event in Mexico in February this year was treated differently. Insiders say it was the first initiative Mr Gurría took after he moved into his new job. He roped in other agencies such as the United Nations, the IMF and the World Bank to sponsor the meeting.

This grand affair was attended by many senior Mexican politicians including the president, Felipe Calderón, and covered extensively in the local media. Mr Gurría had the OECD pay his expenses of €9,400; the total cost of the Paris delegation's visit was nearly €50,000. The whole event broke with previous procedures. Mr Brooks says that the OECD did nothing differently from the other agencies that attended the event. Back in Paris some staff were appalled at this apparent favouritism. "We used to have a secretary-general who worked for the organisation; we now have an organisation that works for the secretary-general," says one insider.

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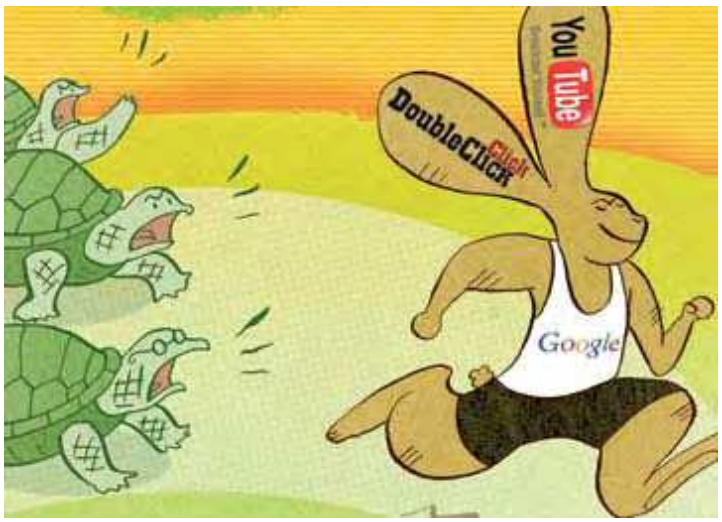
The internet

From GooTube to GoogleClick

Apr 19th 2007 | SAN FRANCISCO
From The Economist print edition

Is Google's latest string of deals a sign of strength or weakness?

Satoshi Kambayashi



ANOTHER month, another string of victories for Google, the internet's emerging superpower. With the most popular search engine and the most efficient system for placing text advertisements alongside the results, Google already dominates the lucrative market for “paid search” advertising (where advertisers pay only for mouse clicks). On April 13th Google announced that it would pay $3.1 billion—making this its biggest acquisition ever—for DoubleClick, the web's largest independent broker between online publishers and advertisers in the market for “branded” or “display” advertisements (where advertisers pay each time the ad is displayed). According to some estimates, this market segment, although smaller, is now growing faster than paid search.

Before the weekend was over, Google had also struck a deal with Clear Channel Radio, America's largest radio broadcaster, in which Google will sell—online, of course—some of the airtime on 675 radio stations to advertisers in Google's network. This follows the announcement at the beginning of the month that Google will place advertisements on the 125 television channels of EchoStar, an American satellite-TV operator, and Google's separate push to put advertisements into traditional newspapers. Google is thus mapping out plans to dominate not just the internet, but the advertising market too.

In the process, it is rudely taking the wind out of the sails of Yahoo!, which had rather been hoping that this would be its month to impress. Terry Semel, its boss, emphasised this week that Yahoo! remains the clear leader in display advertising. Even so, Yahoo! must now feel threatened. Mr Semel says Google's purchase of DoubleClick “validates” his own strategy in display advertising; but Yahoo!, along with Microsoft and Time Warner, had also been bidding for DoubleClick. For Mr Semel, having been outbid by Google for a stake in AOL, an internet portal, and for YouTube, the leader in online video, this is the latest in a series of strategic defeats.

All this is unpleasant because Mr Semel has recently been trying to engineer just the opposite outcome. Rather than defending against Google in display advertising, he had been hoping to attack it in paid search. Yahoo! has in the past placed text advertisements on its search pages based only on how much an advertiser bids for a given search term, such as “mountain bikes”; Google, by contrast, takes other variables (such as the number of click-throughs) into account and so makes its advertisements more relevant to web searchers, thus earning more revenue. In February Yahoo! launched a new placement system, called Panama, that is meant to close this technical gap.

So far, however, Panama has not helped Yahoo! match Google's financial success. This week Yahoo!

reported that profit in the first quarter fell by 11% compared with a year earlier, which was below Wall Street's expectations. The boost from Panama will show up only in this quarter, says Susan Decker, Yahoo!'s second-in-command. Others are sceptical about how much of a difference Panama can make, since advertising systems depend not just on fancy software but also on signing up advertisers and publishers, as Google has done. Panama may only prevent Yahoo! from falling further behind.

Boohoo, Yahoo!

Mr Semel's other defence is to use the growing fear of Google among “old media” firms to engineer alliances designed to contain the enemy. In March Yahoo!, along with AOL and Microsoft's MSN, signed up to a new partnership with NBC and Rupert Murdoch's News Corporation, which intend to form a joint venture in online video to counter Google's YouTube. Last week Yahoo! expanded an advertising alliance with Viacom, which is suing YouTube. And this week Yahoo! announced a deal with a group of newspaper publishers—including McClatchy, America's third-largest—to run their content on Yahoo!'s websites and place advertisements on the papers' websites.

For MSN the picture is even bleaker. Its parent, Microsoft, is in a different position from Yahoo!, since online advertising is still minuscule next to its revenues from software, expected to be over $45 billion this year. Yet online advertising is crucial to Microsoft's growth, says Sarah Friar, an analyst at Goldman Sachs, since it is perhaps the only new market large enough to be “needle-moving” for such a big firm. But so far Microsoft is failing. By Ms Friar's estimates, Google will make operating profits of over $5 billion this year, growing at a rate of 36% for the next three years; Yahoo! will make $3 billion in operating profit, growing by 20% a year; and Microsoft's online businesses will lose $2 billion this year and even more in the next two years.

Microsoft's nightmare is that Google will at some point disrupt its main business of selling software such as Microsoft Office, which most cubicle denizens use for word-processing, spreadsheets and presentations. Google is already offering word processing and spreadsheets as free online services, and this week announced it would soon add presentation software as well, to rival Microsoft's PowerPoint.

Yet Google's latest deals contain a hint of weakness. Henry Blodget of Cherry Hill Research, a consultancy, notes that in its original business of placing text advertisements on its own search pages, Google makes profit margins of about 60%. In its more recent business of placing advertisements on web pages belonging to other people, such as bloggers, its profit margins are 10-20%, because it is harder to make the advertisements as relevant to the audience and it must share the resulting revenues. Display advertising also offers lower returns. Even if Google successfully expands into new fields such as television and radio advertising, its profit margins are likely to keep declining, especially since its partners will probably give Google only “left-over” advertising slots.

For the moment Microsoft is being a sore loser. Along with AT&T, it was quick to cry antitrust wolf upon hearing that Google had won the bidding for DoubleClick—sweet irony, given that Microsoft and AT&T have both fallen foul of antitrust regulators in the past for abusing their monopolies. “Advertisers don't want a Wal-Mart-isation of digital advertising,” where one firm (like Wal-Mart in retailing) becomes so big that it can dictate prices, says Tom Chavez, the boss of Rapt, a firm that analyses online-advertising data on behalf of publishers and advertisers.

That said, Mr Chavez adds, Google is still far from becoming a Wal-Mart—and even Wal-Mart is not facing an antitrust investigation. Unlike AT&T and Microsoft, both of which exerted a strong technological “lock in” over their customers, Google operates in a more open market that is easier for competitors to contest. Regulators will scrutinise the Google-DoubleClick deal, as they should. But Google is not a monopolist—just a company that is, for the moment at least, ahead of its peers.

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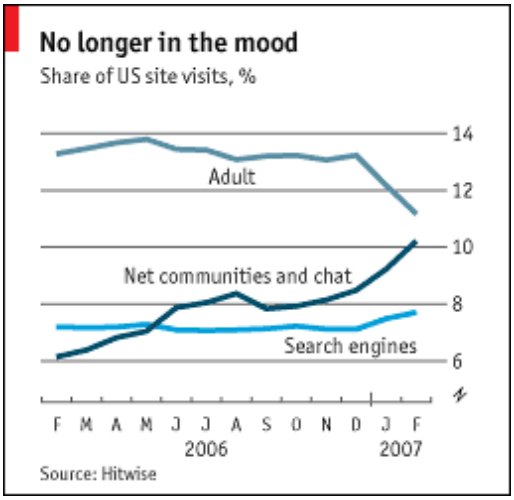
Sex and the internet

Devices and desires

Apr 19th 2007
From The Economist print edition

Is lascivious online content, traditionally on top, losing its lustre?



WHEN the internet took off in the 1990s, it was demonised as a steaming cauldron of porn. It has certainly made pornography more widely and easily available than ever before. The online porn industry is difficult to measure, but was valued at $1 billion in 2002 by America's National Research Council. Google, which publishes its "zeitgeist" list of top search queries, redacts sex-related terms from the rankings for fear of causing offence. But the popularity of pornography is clear from figures compiled by companies that track user "clickstreams". Last year about 13% of website visits in America were pornographic in nature, according to Hitwise, a market-research firm. For comparison, search engines account for about 7% of site visits.

Yet the Hitwise data suggest that sex sites are now being dethroned. In Britain search sites overtook sex sites in popularity last October—the first time any other category has come out on top since tracking began, says Hitwise. In America, the proportion of site visits that are pornographic is falling and people are flocking to sites categorised "net communities and chat"—chiefly social-networking sites such as MySpace, Bebo and Facebook. Traffic to such sites is poised to overtake traffic to sex sites in America any day now (see chart).

Does this mean the internet has matured as a medium? After all, pornographic content is often the first to take advantage of new media, from photography to videocassettes to satellite television. "Sex is a virus that infects new technology first," as *Wired* put it back in 1993. Once a new medium becomes popular, its usage is no longer dominated by porn. Although this may soon be true for the web, however, it is not true for the internet as a whole. Much pornographic content may simply have shifted from the web to peer-to-peer file-sharing networks, for example.

Or consider Second Life, the booming virtual world. It is regularly feted as a flourishing platform for virtual commerce, yet a large portion of its economic activity relates to sex. Exactly how much is unknown, but an employee of Linden Labs, the company behind Second Life, once ventured that 30% of transactions related to sex or gambling. Edward Castronova of Indiana University estimates that sex is "a substantial portion, perhaps even the majority" of economic transactions in Second Life. (Users must first buy genitalia for their avatars, who otherwise resemble Barbie and Ken dolls when unclothed.)

The growing popularity of social-networking sites is not entirely unrelated to sex, either. Such sites are often used to find and attract potential mates. Porn sites may have reached a climax, but sex remains as potent online as ever.

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Commercialising space

Ready for take off?

Apr 19th 2007 | NEW YORK
From The Economist print edition

Dotcom start-ups defied gravity. Now space start-ups hope to do so for real

FIFTY years ago this year, the Soviet Union launched *Sputnik 1*. The unmanned satellite was only the size of a basketball, but its successful 98-minute journey around the planet marked the start of the space age. Back then, and for nearly all of the five decades that followed, space was the exclusive domain of governments and professional astronauts. Happily the doors of space are now about to be thrown open to the ordinary punter. That, in any case, was the starry-eyed argument made by a throng of aerospace entrepreneurs who gathered this week in New York at a space-investment summit.

Private-sector giants such as Boeing and Lockheed Martin have been involved in aerospace for decades, but that has mostly been through “command-and-control, cost-plus contracts”, in the words of one panel chairman. John Carmack, head of Armadillo Aerospace—who made his fortune developing “Doom” and “Quake”, two hugely successful video-game franchises—argues that government domination of space has made the industry's established firms too risk-averse, with little appetite for innovation. In contrast, today's space pioneers are highly experimental, suspicious of government agencies and eager to persuade Wall Street that there is gold in those heavenly hills.

They got support from a surprising corner: Thomas Pickens, the son of T. Boone Pickens, a corporate raider. The younger Mr Pickens, who now runs Spacehab, a supplier of pressurised aluminium modules and other space kit to America's space agency, insisted that his father had taught him never to invest in industries “just because they are sexy”, but instead to stick with strict tests of financial returns. In his judgment, he declared to enthusiastic applause, “it's time for space”.

He will doubtless look to the flurry of recent announcements for evidence. Virgin Galactic, a firm controlled by Britain's Sir Richard Branson, struck an agreement in March with New Mexico's state government for the construction of a “spaceport” costing around $200m from which it will launch tourist trips into sub-orbital space within a couple of years. (Tickets cost about $200,000, but the firm says 200 have been sold.) Last month also saw the partially successful launch of a rocket by SpaceX, a private firm controlled by Elon Musk, another software millionaire.

Earlier this month Robert Bigelow, who made his money from budget hotels, announced ambitious plans to send a series of inflatable, relatively inexpensive space stations into orbit (a prototype has already been launched). So far he has spent $95m of his own cash, and stands ready to spend as much again. By 2012, Mr Bigelow says, governments and firms will be able to lease space on his orbiting stations. He is also planning space hotels for tourists.

Those who cannot wait that long can queue up for a ride with Space Adventures, which sent Charles Simonyi, yet another software millionaire, to the International Space Station earlier this month as the fifth “private space explorer”. Or they can rush to Zero Gravity Corporation, which for a mere $3,500 flies Boeing 727s in parabolic dives to give a taste of weightlessness. Peter Diamandis, the man behind both these American firms and the founder of the X Prize Foundation—a charity that financed a competition that led in 2004 to the first manned private-sector flight into space—sees entertainment and tourism as “profitable stepping stones” to the commercialisation of space.

Is the private space industry therefore set for take off? Plenty of snags remain. Both Mr Musk and Mr Carmack emphasise that rocket science is difficult and risky; both have endured launch failures. Peter Wilson of RAND, an American think-tank, says demand for space launches will grow only slowly in the next 15 years and thinks there might even be a glut of supply. Erich Fischer of Booz Allen Hamilton, a consultancy, is sure the demand will come if costs fall dramatically—but remains sceptical because “that is a very big if”.

Perhaps the biggest snag is government itself. Government space agencies worldwide may yet subsidise launches or unfairly block newcomers from launch markets. That is why tapping sources of capital broader

and deeper than just the pockets of a single enthusiastic founder could prove essential if the brash new breed of private space firms is to prosper. “You can't have Buck Rogers without the buck,” says Mr Carmack.

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Pedicabs

On your bike

Apr 19th 2007 | DENVER, LONDON AND NEW YORK
From The Economist print edition

Regulation threatens a booming business with, er, a cyclical downturn

AP

They're behind you

A PEDICAB borrowed from a friend for a conference on pedestrianisation in 1990 got Steve Meyer pedalling what is now a fast-moving business. Hoping to liven up the often-deserted streets of downtown Denver, his hometown, he bought two of the bicycle taxis. But they did not work very well, so he started building what has since become the industry standard, with 21 gears, hydraulic brakes and so on. His firm, Main Street Pedicabs, now caters to rising demand both in America and abroad.

Alas, regulation in two of the biggest markets for pedicabs threatens to puncture Mr Meyer's upbeat mood. Last month New York's city council voted to impose onerous rules on the hitherto unregulated pedicab industry and to limit the number of pedicabs to 325. A protest prompted Michael Bloomberg, New York's mayor, to veto the new rules, apparently out of entrepreneurial fellow feeling for the pedicab drivers, but the city council is likely to override his veto, perhaps as soon as next week.

Pedicabs first started operating in New York in the mid-1990s, but their numbers soared from around 100 to over 500 after they featured in an episode of Donald Trump's business reality-television contest, “The Apprentice”, in 2004. For the sort of fit youngster who wants a flexible job—many drivers in New York are actors or students—it pays well: $300 on a good day, though typically half that. The cost of entry is low, perhaps $4,500, compared with $400,000 for a yellow-taxi medallion.

Pedicabs are under attack in London, too, where an estimated 400 operate. Transport for London, a regulatory body, is reviving its controversial claim that pedicabs should be regulated as “hackney carriages”, like the city's black cabs. Chris Smallwood, chairman of the London Pedicab Operators Association and boss of Bugbugs, a 60-strong pedicab firm, says treating pedicabs like black cabs would impose unbearable costs on the industry. He has helped to draft an amendment to a bill now before the House of Lords that would introduce lighter pedicab regulations.

There is striking agreement between the pedicab trade groups in both London and New York that some sort of regulation is needed, not least to deter rogue operators. But current proposals seem to serve the interests of motor-taxi drivers, who want their rivals off the road.

The irritation is that pedicabs do not compete much with motor-taxis, say Messrs Meyer and Smallwood. Pedicab journeys tend to be the short trips that drivers of gas-guzzling taxis hate most. Pedicabs' main competition is walking, says Mr Meyer, who points out that if New York's 12,000 yellow cabs were replaced with pedicabs, “there would be a lot less congestion”. Here's hoping that politicians on both sides of the Atlantic cast their votes for pedal power.

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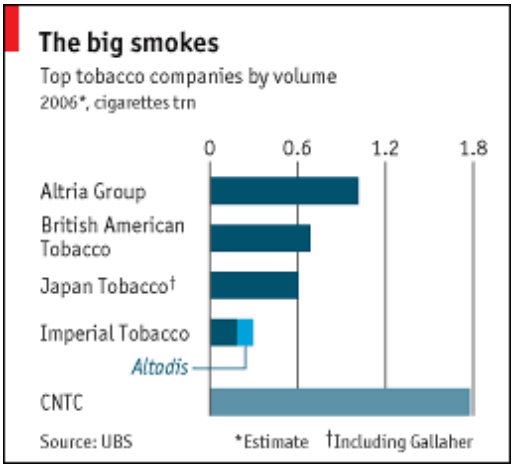
Cigarettes

Thank you for smoking

Apr 19th 2007
From The Economist print edition

A much-reviled industry is consolidating



GARETH DAVIS, the boss of Britain's Imperial Tobacco, has been itching to get his hands on Altadis, the Franco-Spanish maker of Gitanes and Gauloises cigarettes, for more than a year. Imperial is the number four in an industry dominated by a trio of giants. Altadis's Mediterranean strengths would fit nicely with Imperial's British and German operations. Yet Mr Davis hesitated to make a bid because Altadis is so keen to stay independent and he thought Imperial would lose out in a bidding war against America's Altria, British American Tobacco (BAT) or Japan Tobacco, the three firms that dominate the industry outside China (see chart).

Last December, when Japan Tobacco made a takeover offer for Gallaher, the British-based maker of Benson & Hedges and Silk Cut, Mr Davis saw his opportunity. (The takeover of Gallaher was completed on April 18th.) Japan Tobacco would be busy with the integration of Gallaher. A bid for Altadis by Altria, the industry leader outside China, would probably run into trouble with competition authorities. BAT could launch a rival offer, but having been reluctant to fight for Gallaher, the industry's number five, it would probably want Altadis, the number six, even less.

Mr Davis' first offer for Altadis was rejected by the firm's board last month. He came back with a higher bid valuing the company at €12 billion ($16 billion), more generous than Japan Tobacco's $15 billion purchase of Gallaher, but the board rebuffed him again on April 10th. Two rejections are enough. “Now Imperial is likely to go hostile,” says Jonathan Leinster, a tobacco analyst at UBS, an investment bank.

A takeover of Altadis would trigger the endgame of tobacco-industry consolidation. If Imperial bought Altadis, the four largest firms would then control some 70% of the market outside China, where tobacco sales are in the hands of CNTC, a state monopoly. Mergers bring cost savings in manufacturing, marketing and distribution. Altadis itself is the result of the 1999 merger of the former tobacco monopolies of France and Spain.

The tobacco industry is assailed by sky-high taxes, curbs on advertising, anti-smoking campaigns and smoking bans in public places. But all that regulation has the silver lining of keeping out new brands. A concentrated industry makes for lots of pricing power and handsome profits. In addition, tobacco groups have low manufacturing costs and tend to deal directly with small convenience stores rather than powerful retailers that could apply more pressure to lower prices.

In part thanks to mergers, the industry has also become much more efficient in the past 20 years. Today one factory could probably supply the entire British market, says Mr Leinster. Even so, private-equity companies might also enter the bidding for Altadis. They tend to stay away from industries that have consolidated and rationalised—especially if they have dirty reputations—but the cravings stirred up by tobacco may prove too strong. Some analysts suspect that Altadis's board is preparing for a management buyout in collaboration with private-equity backers. After the failure of its bid for Sainsbury's, a British supermarket chain, CVC, a British private-equity company, could be interested in Altadis, possibly in partnership with PAI, a French private-equity firm.

Were such a management buy-out to go ahead, the new owners would probably auction off Gauloises, Gitanes and other valuable cigarette brands, and then restructure Altadis's cigars and logistics arms. The cigarettes business could fetch €7 billion, whereas the cigars and logistics divisions could go for more than €4 billion each. BAT would be interested in Altadis's cigarettes units in Morocco, Spain and France. Altria might want some bits, too.

The big question for later is whether the Chinese market will open up and whether Chinese firms will expand abroad. CNTC, twice the size of Altria, has a near monopoly in the People's Republic, which accounts for roughly 30% of world cigarette consumption. With some 350m smokers China is the ultimate prize for Big Tobacco, but could also pose the ultimate threat.

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Foreign investment in India

To cap it all

Apr 19th 2007 | DELHI
From The Economist print edition

India's limits on foreign ownership are keeping out much-needed investment

Get article background

IT WAS meant to be India's biggest-ever foreign direct investment (FDI). But Vodafone's acquisition of 67% of Hutchison Essar, India's fourth-biggest mobile operator, for $11.1 billion, has run into regulatory trouble. India's central bank suspects that the deal, announced in February, would violate a 74% limit on foreign ownership of telecoms firms. The Foreign Investment Promotion Board (FIPB) has been asked to review the purchase and has twice deferred ruling on it. It is due to reconvene on April 23rd, when it is expected to suspend judgement yet again.

Under the terms of the deal, which values Hutchison Essar at $18.8 billion, Vodafone would buy 52% of the firm outright from HTIL, a unit of Hutchison Whampoa of Hong Kong. The remaining 15% is held by two Indian individuals and an Indian private-equity firm on HTIL's behalf. Vodafone plans to buy this stake from HTIL and retain the same arrangement. Crucially, this slab of the firm, mostly held by Asim Ghosh, Hutchison Essar's managing director, and Analjit Singh, chairman of Max India, a health-care group, is not considered to be foreign-owned.

If the Vodafone deal changed this, it would put an illicit 89% of Hutchison Essar in alien hands. That is because the remaining 33% of the company held by Essar, an Indian steel and oil-refining conglomerate, includes 22% held offshore. In principle, the government is behind Vodafone; but winning approval for the deal will not be easy. For example, the FIPB has asked Vodafone why it bragged in a press release of buying 67% of Hutchison Essar if, as it now claims, it stands to own only 52%.

Before the regulatory wrangling, the deal was notable mainly for its size. But if it now goes ahead, it is more likely to be remembered for the way it bent the rules on FDI. These have been eased, or scrapped, in recent years. Manufacturing, computer services and some financial services, such as asset management and stockbroking, are among the many industries open (or mostly open) to foreigners. Overall, India is as open as any other emerging market. But those restrictions on FDI that remain are in some of its fastest-growing industries—including telecoms, banking, aviation, retailing and newspapers. The central bank plainly fears that Vodafone could set a troublesome rule-bending precedent.

That would be infuriating for a government that is caught between the necessity of upholding the law and the desire to win more FDI for the country. On April 14th the trade and commerce minister, Kamal Nath, announced that India had attracted $15 billion in FDI in the financial year that ended in March, almost a threefold increase on the previous year. This came on the back of a few liberal reforms, economic growth averaging over 8% in the past four years and a general bullishness towards emerging markets.

In spite of that increase, India remains desperate for FDI. Last year's success is still a modest figure, representing only about 1.5% of GDP, against China's decade-long average of about 3%. In this financial year, Mr Nath hopes to attract FDI of $25 billion.

India needs FDI above all to help develop manufacturing, which represents only 15% of its economy—though it is growing according to plan. FDI in manufacturing—"the sweetest of all FDI", says Mr Nath—also grew, and amounted to $6 billion in total. But the overall increase in India's FDI was dominated by investments in property development, from almost nothing to around a third of the total, in response to hugely inflated property prices in Mumbai and Delhi. Chetan Ahya, Morgan Stanley's economist in Mumbai, says these investments could therefore be considered to be "speculative in nature".

To secure vastly increased investment in manufacturing, India needs to do more than just fiddle with its rules limiting FDI. It also needs to improve its crumbling infrastructure, reform constrictive labour laws and remove many of the administrative hurdles it erects in companies' paths—especially in manufacturing.

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Joint ventures in China

Wahaha-haha!

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The lessons from Danone and HSBC's troubled partnerships in China

THEY seemed like promising deals at the time. When Danone, a French food giant, acquired a 51% stake in Wahaha Beverage, a Chinese firm, in 1996, it considered it a coup. And in 2004 HSBC became the envy of rival banks when it acquired a 19.9% stake in Bank of Communications, the smallest of China's national banks and the only one that, by law, allowed for the possibility of full acquisition. In what has become a painfully familiar experience in China, however, both companies have since run into trouble. Danone's partnership with Wahaha has erupted into an acrimonious public dispute and the huge growth in Bank of Communication's assets has placed it within the small group of powerful banks that the Chinese government will not permit to be taken over.

Danone and HSBC are hardly the first to have been hit. Faced with a geographically vast but promising market obscured by a thicket of complex and contradictory rules, many foreign firms have entered China via joint ventures—and then been left grinding their teeth. The list touches every industry, including cars (Peugeot), spirits (Rémy Martin), beer (Foster's), steel (Fletcher Challenge), media (News Corporation) and telecoms (too many to list).

In theory, the case for joint ventures was compelling. The foreign partner provided capital, knowledge, access to international markets and jobs. The Chinese partner provided access to cheap labour, local regulatory knowledge and access to what used to be a relatively unimportant domestic market. The Chinese government protected swathes of the economy from acquisitions, but provided land, tax breaks and at least the appearance of a welcome to attract investment.

In practice, these arrangements have collapsed for three reasons. Chinese companies were happy to receive money and technology, but did not want to be mere adjuncts to foreign firms; in many cases they have large, often global, ambitions of their own. Too often the allocation of profits and investments was unclear, leading to endless squabbling. But perhaps most importantly, China has now changed, says Jesse Chang of TransAsia Lawyers, a law firm that advises foreign firms.

China has become far more open legally because of commitments made to the World Trade Organisation as a condition of membership. But its hunger for foreign investors has been sated. The availability of labour and land has fallen, domestic capital is abundant, the local market is now understood to be among the most attractive in the world and sentiment has become more nationalistic and self-satisfied. So there is less interest in providing access to foreign partners.

When Danone made its investment, Wahaha says it knew little about business and welcomed a partner. Now, alive to the opportunities, it is outraged that it must clear plans with a foreign majority owner which has its own alternative strategies in China through various other (though less important) joint ventures—and it is even more outraged that Danone wants full ownership. Danone says it believed things were going smoothly until 18 months ago, when it discovered Wahaha had started a parallel firm to market similar products. It says it hopes to resolve the dispute.

HSBC is hedging its bets. Unable to buy out its partner, it is pursuing local incorporation, something only recently allowed, and investments in Bank of Shanghai and Ping An, an insurance firm. But strict operating and ownership limits apply.

Better-positioned are a small number of firms that were clever enough (unlike Danone) and allowed by law (unlike HSBC) to wrap up their original joint ventures amicably. Unilever has shut down more than a dozen and Coca-Cola and Starbucks have recently bought out their Chinese partners. “For a joint venture to be successful,” says Jonathan Woetzel of McKinsey, a consultancy, “you have to plan for it to die.”

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Face value

The enigma of Little Sweetie

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Nina Wang, a property tycoon said to be Asia's richest woman, leaves behind many unanswered questions

Reuters

THE funeral of Nina Wang, which took place on April 18th, was an uncharacteristically lavish affair for a woman renowned as much for her frugality as her wealth. Ms Wang is thought to have become the richest woman in Asia after the disappearance in 1990 of her husband Teddy, who left her a property empire reckoned by *Forbes* to be worth $4.2 billion. This week's funeral brings to a close an extraordinary life story that has kept Hong Kong enthralled and mystified for years.

Among the very few things that can be said with certainty about Ms Wang was that she cut a colourful figure amid the local pinstriped tycoons. Until shortly before her death on April 3rd, aged 69, she wore pigtails dyed to match her miniskirts and bobby socks, and sometimes liked to bring a pet dog or monkey to meetings. Nicknamed “Little Sweetie” after a comic-book character with a similarly beguiling smile and sense of style, her picture was a constant presence in the local papers. And despite her great fortune, she displayed a quirky austerity, pausing on the way home from an elegant dinner to grab leftovers at the kitchen, and hosting soirées at McDonald's.

Teddy was equally frugal and is said to have chastised her for paying an $11m ransom when he was kidnapped in 1983, even though he had spent eight days tied to a bed and had then been stuffed into a fridge. So when he was next kidnapped in 1990, Nina paid up only $34m, half the requested amount. It was evidently not enough: Teddy was never seen again. One of the many people jailed in connection with the abduction said he had been dumped into Hong Kong harbour, but Teddy's body was never found and doubts persisted. Nina said she believed he would return and under a power-of-attorney arrangement she was allowed to run his property firm, Chinachem, in his absence. Teddy was declared dead by the authorities in 1999.

Settling his estate inspired an epic probate battle between Nina and Teddy's father, Wang Din-shin, that played out in the press in 2002. Din-shin produced a will written by Teddy in 1968 after he apparently discovered his wife was having an affair; it left Nina with nothing. Din-shin then accused her of being on birth-control pills even though Teddy was sterile, implying continued adultery. Nina responded with another will, conveniently written just before Teddy disappeared in 1990 and with a title-sheet saying “One life, one love”. It gave her everything. Only two witnesses existed for this will, Nina and the Wangs' butler, who died shortly after Teddy was declared dead.

The first phase of litigation went against Nina; the judge called the 1990 will “utterly ridiculous”. Criminal fraud charges were filed. But the ruling was sensationally overturned on appeal in 2005 and the charges were dropped. After the announcement, Nina's brother was beaten outside the courtroom. Someone was apparently unhappy about the outcome. Nina sued Wang Din-shin, demanding to know who financed his side of the lengthy and hugely costly litigation. He refused to say.

The origin of Nina's and Teddy's fortune has always been mysterious and became more so as it grew. The Wang fortune originated in Shanghai, where the two met as children. They migrated to Hong Kong in the 1950s after the communist takeover, when getting out was hard and shifting wealth even harder. (Many Hong Kong fortunes are hard to explain, and it is considered bad manners to ask questions about their origins.) By the 1970s, the Wangs' company, Chinachem, owned vast swathes of the New Territories, the stretch of land between Kowloon and the Chinese border. The firm eventually erected more than 300 buildings, many of which were controversial because they circumvented zoning laws or were said to skimp on quality.

Mystery piled upon mystery

But the oddest aspect of Chinachem's management was not how tough it was on costs and quality or how it finessed local building authorities—familiar complaints, justified or not, about many landlords—but rather how lax it was on revenues. Hong Kong tycoons are known for working their assets—erecting buildings, filling them up, raising rents, then knocking them to rubble when demand allows for bigger replacements. In contrast, Chinachem had empty buildings, none more bewildering than a project Nina launched in 1997 when she spent more than $1 billion to build a curious funnel-shaped apartment block in Hong Kong's lovely Repulse Bay. Not a single one of its 184 units has ever been rented or sold, notwithstanding a booming market for flats. She subsequently built a 42-storey “Nina Tower” and at her death was building an adjoining 88-storey “Teddy Tower” in a depressed area of Kowloon, where typical corporate-tower clients are unlikely to want to work.

On Ms Wang's death the Hong Kong papers were filled with her pictures, her smiles and, inevitably, stories that portrayed her in a less flattering light. A maid claimed she had not received an increase in her $500 monthly salary for 14 years. Stanley Ho, a friend and a fellow tycoon, claimed that a reluctance to pay medical fees meant that the ailing Ms Wang consulted a doctor only in December, by which time her illness, believed to be ovarian cancer, was too advanced to be treated. But others have disputed this version of events.

Speculation abounds about who might be the heir to Ms Wang's fortune. Reports first suggested it would go to charity, then to family members. More quietly, many people wonder how much of a fortune there is to inherit. Property empires rarely lack debt. Projects have partners. And Chinachem's cavalier attitude towards management suggests it was operating outside the world of disciplined, credit-scarred bankers. Just because it was never clear who Ms Wang's backers were does not mean they do not exist. Pigtails and pets were always a wonderful distraction. The question that remains is: from what?

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Credit derivatives

At the risky end of finance

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SuperStock

The use of credit derivatives has boomed and bemused. These new financial instruments have yet to face their biggest test

NAUGHTY or nice? The question that Father Christmas poses to every child who clamours for a present also haunts the credit-derivatives market. Are these devices a clever way to disperse risk, making the financial system safer, as their enthusiasts claim? Or are they “financial weapons of mass destruction”, in Warren Buffett's phrase, that are poorly understood and perilous boosters of credit?

So far the optimists have had the better of it. People have worried about financial derivatives for 20 years, but economies have proved remarkably resilient. These exotic instruments have not yet produced the cataclysm that Jeremiahs have long forecast. Indeed, the equity bear market of 2000-03 did not result in a banking crisis, as it might have done 30 years ago, when derivatives were still rare.

So far credit derivatives have proved a triumph of the financial sector's ingenuity. By dividing the bond market into digestible chunks, they have increased investors' appetite for corporate debt. That may well have lowered the cost of capital—good for the economy, since it should allow companies to invest more over the long run.

But credit derivatives have yet to face a really bracing test. They have grown in a time of low interest rates and narrow credit-spreads (an extra yield over government bonds to offset risk). Recent problems in America's “subprime” mortgage market (for borrowers with poor credit ratings) are a reminder that the sun does not shine for ever. What will happen when monetary policy is tighter, with interest rates increasing and spreads widening?

The risk of default

Credit derivatives are financial instruments that “derive” their value from the bond market. They can cover any bonds that are not issued by governments—that is, where investors face the risk that the borrower may not repay.

Their rapid growth stems from three market quirks. The first is that a traditional corporate bond bundles together a whole group of risks. A bond price might fall because investors are generally demanding higher yields for all fixed-income assets (interest-rate risk), because investors prefer bonds of one maturity date to another (duration risk), or because they think the company that issued the bond will have trouble

repaying it. Derivatives separate this last factor—credit risk—from the other two.

This allows investors to insure themselves against the risk of default or, alternatively, to speculate that a default will occur. The instrument that does this is a credit-default swap or CDS (see jargon guide). Hence A agrees to pay a series of premiums to B; who agrees to compensate A if the bond defaults.

Derivative language

A guide to the jargon

Term	Meaning
ABX	Index of subprime mortgage loans (see below)
CDX	Index of US credit-default swaps
Credit Default Swap (CDS)	Agreement whereby one party makes a series of payments to another in return for compensation in the event of a bond default
Collateralised Debt Obligation (CDO)	Portfolio of bonds, divided into tranches, giving investors different rights
Collateralised Loan Obligation (CLO)	Equivalent of CDO using loans, not bonds
Continuous Proportion Debt Obligation (CPDO)	Specialist vehicle that uses borrowed money to insure a broad portfolio of bonds or loans
Credit Derivative Product Company (CDPC)	Specialist vehicle in the CDS market
Equity	Riskiest part of a CDO
iTRAXX	Index of European credit-default swaps
Mezzanine	Tranches of a CDO that lie between the equity and the senior tranches
Residential Mortgage Backed Security (RMBS)	Bond backed by home loans
Subprime mortgages	Housing loans made to borrowers with poor credit ratings
Synthetic CDO	Equivalent of a CDO, except the underlying portfolio is based on credit-default swaps

Source: *The Economist*

This allows investors to speculate on default without owning the bond itself. Those who buy protection could make substantial profits if the company gets into trouble, since the value of the swap will rise sharply. Plenty of speculation occurs and CDS positions are sometimes much larger than the bonds outstanding.

To date, the insurers have tended to do better than the speculators. This partly reflects today's benign economic conditions (few companies have gone bust), but also relates to the second quirk in the market. The highest-rated bonds (known as investment grade) tend to have delivered better returns than were necessary to compensate investors for the risk of default. In other words, someone who insured such bonds against default would have, on average, made money (conventional insurance companies, which insure against fire or theft, have not always done so well).

The third quirk of credit derivatives is that they allow corporate bonds to be sliced and diced on the basis of risk. Some investors (such as banks and insurance companies) may prefer to own the highest-rated (AAA) debt for regulatory or solvency reasons. Others, such as hedge funds, may want to take more risk and earn higher returns.

Derivatives known as collateralised debt obligations (CDOs) are a clever way to satisfy every taste. They are like a mutual fund that bundles together bonds, loans or swaps. But unlike a mutual fund, a CDO has different tranches that give investors different rights over this portfolio. For example, as interest payments on the underlying bonds come in, they will first be allocated to the senior tranches. Only when these have been paid will the more junior tranches get their share. And if defaults occur, the junior tranches take the first hit.

This tailoring can turn coarse corporate cloth into investment-grade haute couture. Take a bunch of companies, with bonds rated A (not the best credit-rating, but reasonably secure). Assemble them in a portfolio and give one group of securities rights over the first 70-80% of the cashflows from the bonds (and protection against the first 20-30% of defaults). Since it is highly unlikely that 20-30% of the A-rated bonds will go bust, the rating agencies will give such securities the highest AAA appellation. In a world where very few individual companies can command such a lofty rating, this transmutation makes such instruments highly appealing.

Of course, it concentrates the risks in the rest of the portfolio. The lowest-rated securities (the last to get

the cashflows and the first to bear the brunt of default) are known as “equity”. Although they are not strictly shares, they do tend to offer share-like returns of 15-20% or so. The securities in between the equity and the senior securities are known as mezzanine.

The bottom tiers of these CDOs have been called “toxic waste”. But they have been almost nourishing in recent years, thanks to the low default rate on corporate bonds. Their buyers have enjoyed the rewards without seeing much of the risks.

That now seems to be changing—in one part of the market, at least: CDOs that buy asset-backed securities and in particular those linked to subprime mortgages. These loans were bundled together and sold as residential mortgage-backed securities (RMBS); in turn those securities were bought by the issuers of CDOs. With so many subprime borrowers now behind on their payments, the pain is trickling through the system. The ABX index, which represents a basket of credit swaps on bonds tied to high-risk mortgages, fell more than a quarter in the first three months of the year.

A study by Moody's, a credit-rating agency, of asset-backed CDOs found that, on average, slightly less than half their portfolios were invested in subprime RMBS. But in some cases, the exposure was nearly 90%. Losses will be magnified for investors in the junior tranches. At worst, Moody's says, the vast majority of tranches in such CDOs would be downgraded to junk-bond status.

Over the edge

Imagine a geared hedge fund owning the riskiest tranches of CDOs exposed to subprime debt. Lombard Street Research reckons that the combined gearing could reach 54-fold, implying that a 2% price drop could wipe out the entire portfolio. There are no signs, as yet, that any hedge funds have taken such a big bet; the best known casualty is a London-listed fund, Queen's Walk, which has seen its shares fall by 40% this year. Anecdotal evidence suggests many hedge funds were quick to realise the dangers of subprime lending—and to profit from the market collapse.

Yet the damage may take time to be felt. Many 2006 mortgages are not yet in default. Many CDO tranches are rarely traded, so prices may not have registered a hit. Investors may not write down holdings until the rating agencies downgrade them—which could take months.

CDOs come in a variety of forms. “Cashflow” CDOs are normally based on a portfolio of bonds. According to the Bank for International Settlements, some $489 billion-worth were issued in 2006, a record year. Synthetic CDOs are built on swaps: the CDO vehicle insures a portfolio of bonds, doles out the premiums to investors and then deducts capital from the riskiest tranches when defaults occur. The bank says $450 billion of synthetic CDO issuance occurred last year, more than double the 2005 level. Collateralised loan obligations (CLOs) are backed by a portfolio of loans, usually those raised by private-equity groups for takeovers. This area of the market is also expanding fast.

But those are just the straightforward recipes. The ever-inventive financial sector has taken the ingredients and cooked up a bewildering alphabet soup. A CDO^2 invests in other CDOs. CPDOs are constant proportion debt obligations which can borrow up to 15 times their capital to insure an index of bonds (such as the iTRAXX) against default; the result is a highly geared structure that pays up to two percentage points above cash rates and yet is given an AAA rating. Credit-derivative product companies (CDPCs) act as a kind of reinsurance company, trading swaps with CDS dealers. They gear up their capital 30 times, relying on the margin between swap spreads on investment-grade debt and the prospects of default. It may sound risky, but Tom Jasper, of Primus Guaranty, one of the sector's pioneers, says he has not suffered a credit default in the five years of the company's existence.

So what are the dangers? The first is the most obvious and the least worrying. As with any new instrument, some investors may be exposed to risks they do not understand. Somewhere, someone is going to re-enact the saga of Orange County in California, which lost a bundle speculating on interest-rate derivatives in 1994. That will be bad news for investors, but people lose money all the time, in everything from technology stocks to commodities. That is what happens in markets.

Systemic risk is more of a worry. Dispersing risk ought to make the system more secure. When a bank fails because of loan defaults, depositors at other banks lose confidence; the result can be a contraction of credit in the economy. If loans are held by investors, such as hedge funds, in diversified pools, corporate defaults should have less of an effect. Each investor should lose only a fraction of its portfolio.

At the moment risk does indeed seem to be well diversified. Stephen Dulake, head of European credit strategy at JPMorgan, says he would be concerned about the derivatives market if risk positions were concentrated in a few hands, as they were in 2005 when the downgrading of the debt of Ford and General Motors caused a brief period of turmoil in the CDO market. Since then, the market has broadened and many more investors are involved.

Getty Images

...increases toxicity

Widening credit spreads will hit some investors (although, of course, those on the other side of the deal will profit). But Lisa Watkinson, of Lehman Brothers, says she does not think the growth of the CDS market will suffer. “The more volatility there is, the more scope you have to express a view,” she says. “When spreads were very low, people were saying there was no need to hedge.”

However, credit derivatives create a moral hazard. Someone has to lend money in the first place. If they know they will sell on that loan or bond within weeks, they may not worry whether the borrower will repay in five years' time. Indeed, if they get paid a fee to make the deal, they will care more about quantity than quality.

In addition, if risk is too diversified, who will monitor credit quality closely? This is the “toddler by the swimming pool” problem. If one parent is in charge, he will never take his eyes off the moppet. But if both parents and others are around, all may assume someone else is on guard. Everyone may be reading their newspapers when they hear the splash.

The holders of the equity tranches should act as the concerned parent, because they will suffer first if defaults rise. However, it may be more difficult for them to do so if they are two or three removes away from the borrower in question.

So the system may seem to have become safer, but new dangers could be in the making. Perhaps credit derivatives will alter the behaviour of investors and companies, encouraging them to take more risk. That seems to have happened in the American subprime mortgage market, where underwriting standards fell sharply in recent years, leading to a rapid rise in delinquent loans. Perhaps corporate borrowers will default more than derivative investors imagine, or perhaps investors will recover less value when they do default.

In other words, if individuals feel safer they may act less responsibly. This is the “seatbelt problem”: motorists wearing belts may drive faster knowing they are less likely to go through the windscreen if they have an accident. The overall level of risk ends up the same.

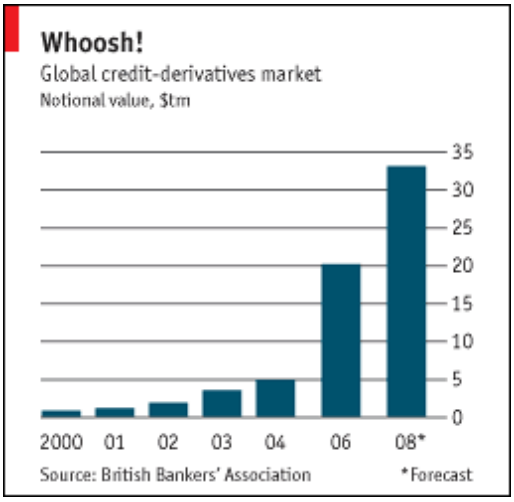
Money matters

A second, and potentially just as serious, problem could be the effect of derivatives on the global supply of credit. David Roche, of Independent Strategy, argues that derivatives have created a form of liquidity outside the control of central bankers. “It is pretty obvious that if one can buy a security that represents an asset for 3-5% of its value, an awful lot of liquidity has been freed up,” he says. “Derivatives have led to many more assets and liabilities being created. By reducing the cost of buying assets, you increase the demand.”

People tend to think of two types of money: narrow money (notes and coins) and broad money (bank accounts and other kinds of assets). Mr Roche says this structure is like an inverted pyramid, where the

top layer is derivatives, worth more than nine times global GDP. Credit derivatives are only a small part of this, but already the amounts involved are staggering. According to the Bank for International Settlements, the nominal amount of credit-default swaps had reached $20 trillion by June last year. With volumes almost doubling every year since 2000, some reckon the CDS market will soon be worth more than $30 trillion (see chart).

This derivatives "money" is not being used to buy food, clothes or cars—which is why there has been no general pick-up in inflation. But it has been used to inflate asset prices, Mr Roche argues.



The danger is things might go into reverse. A rising cost of capital (perhaps from inflation worries) or a rise in risk aversion (due to a pick-up in defaults) might be the culprit. If liquidity falls throughout the system, derivatives will take the biggest hit. But the result, if derivatives have been pumping up the demand for assets, could be a sharp fall in asset prices.

That makes the naughty or nice question hard to answer. So far, credit derivatives have shown their nice side. Their explosive growth has come against a background of generally benign economic conditions, with only modest recessions and low or falling interest rates. Indeed, derivatives have helped produce those benign conditions, by removing some of the financial constraints on growth.

But it is in the nature of capitalism to test new ideas to destruction and to use new instruments as the basis of speculative excess. As Mr Roche puts it: "Credit derivatives are like good things to the Catholic Church. If you have too much of them, they're a sin." Nobody will be sure how robust credit derivatives are until they have been tested in a severe economic or financial downturn. And that is not something anyone should wish for.

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Exchange-traded funds

Revolution or pollution?

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From The Economist print edition

David Simonds

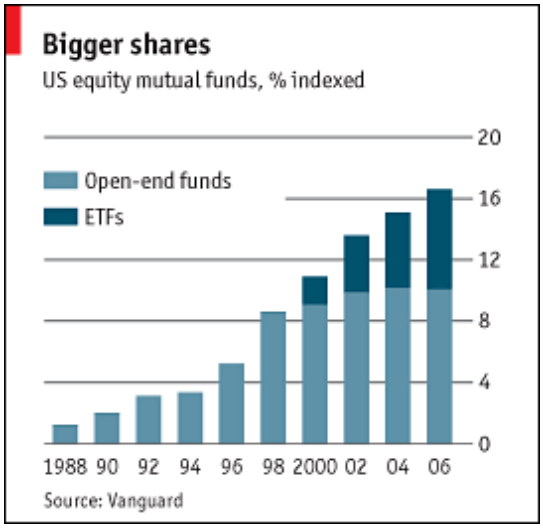
A low-cost form of investment, hugely popular with retail investors, is becoming more exotic. Not everyone is happy about that

WHEN the first exchange-traded fund (ETF) hit the market in 1990, it caused barely a ripple in the world of investing. But if ETFs continue to enjoy the spectacular rates of growth they have seen over the past five years that year may one day be seen as one of the asset-management industry's milestones, along with such landmarks as 1774 (when a Dutch merchant cobbled together the earliest mutual-style fund, *Eendragt Maakt Magt*, or Unity Creates Strength) and 1924 (the launch in Boston of the first modern mutual fund).

Assets held by American-listed ETFs rose by a shade under 40% last year to $418 billion. By the end of March they had climbed by a further $22 billion. Although these upstart funds are still dwarfed by their mutual cousins, which hold over $10 trillion, their share of the indexed market is booming (see chart). Deborah Fuhr of Morgan Stanley predicts that they will have $2 trillion under their wing by 2011. They have become a formidable force in stockmarkets too: last year, more than 8% of all trading in American equities was done through ETFs. But as it expands and evolves, the sector may be riding for a fall, some critics say.

ETFs are part fund, part stock. Like an index mutual fund, they track baskets of assets, such as stockmarket indexes or commodities. But unlike standard funds they can be bought and sold throughout the trading day, so investors can make, or reverse, broad bets quickly, without having to buy dozens of stocks separately. Hedge funds are enthusiastic users, lured not only by the combination of diversification and trading convenience, but also by rules that allow ETFs to be sold short as they are falling, unlike individual shares, which can only be shorted on an “uptick”. Individuals are increasingly getting in on the act too. Big providers of ETFs, such as Barclays Global Investors (BGI) and State Street, say that retail investors now account for two-thirds of inflows, double their share of five years ago. They are attracted by low fees—around a quarter of a percentage point on average—tax advantages and efficient pricing. Portfolios are rebalanced throughout the day so ETFs

trade at or close to the net value of their assets, unlike many mutual funds.



Lee Kranefuss of BGI argues that ETFs are to mutual funds what he reckons compact discs were to records: “a better product with more features for less money.” They are also a force for financial democratisation, he says, since investors big and small can trade on the same terms. And they allow investors to get “beta” (market returns) on the cheap, while active managers toil in search of “alpha” (extra returns through skill), charging more for the privilege—and all too often failing to deliver.

The popularity of ETFs has led to a frenzy of launches. More of them have been unveiled since the beginning of 2006 than in all previous years combined. So far this year, more than 95 have started trading on American markets alone, many of these on the New York Stock Exchange, which sees ETF listings as a key source of listings income. Hundreds more are awaiting approval from the Securities and Exchange Commission (which, worryingly, cannot provide a precise number).

As they expand, providers are pushing into new areas—and, as BGI's Matt Scanlan puts it, “slicing the baloney thinner”. BGI and Vanguard have begun offering fixed-income ETFs; BGI recently launched one that tracks junk bonds. In stocks, it is no longer enough to track the obvious indexes, such as the S&P 500 or the Nikkei. The ETF firms' eggheads have been working overtime to create customised baskets that approximate particular industries or asset classes. There are ETFs that track spin-offs, private equity, gold, vaccine stocks, intellectual property, nanotechnology, clean energy, and much more. Others are designed to allow intriguing bets on standard indexes: the ProShares UltraShort QQQ, for instance, is a “double inverse” play on the NASDAQ 100. Investors gain 2% when the index falls 1%, and vice versa.

This narrowing of focus has given individuals easy access to sectors, such as gold and private equity, that were hard for the unsophisticated investor to reach. State Street's gold ETF has been one of the industry's most popular funds.

However, some worry that growth is getting out of hand, with valuations that recall the dotcom bubble. One ETF provider, WisdomTree, has seen the company's own share price rise by 80% over the past year, even though it is yet to post a profit. Concern is also growing that investors do not appreciate the risks of the ballooning array of niche ETFs. Because they are more thinly traded than flagships such as State Street's S&P 500-tracking SPDR, the world's most liquid share, it costs more to move in and out of them.

Moreover, they may not be tracking their chosen market segments as closely as investors think. A fund with 100 holdings might have over half of its assets concentrated in five or six stocks. Some ETF firms try to replicate entire sectors with a few stocks. They argue that these are always chosen carefully to be representative. But sceptics see it as more akin to the stock picking of active managers than the diversification promised by index funds. In several recent cases—such as oil and Chinese stocks—ETF prices have drifted from those of the underlying assets.

The most vocal critic of ETFs is John Bogle, Vanguard's former boss. He likens them to a shotgun: “good for hunting game, but good for suicide too”. He thinks they are undermining the buy-and-hold principle of sound investing by tempting the little guy into ill-timed “performance-chasing”. And he is horrified that some funds see turnover of more than 3,000% a year. The trading commissions notched up by all this activity could overwhelm the cost advantages of ETFs, he argues.

Sceptics, like Mr Bogle, have got it wrong, according to Mr Kranefuss. The vast majority of trading is done by institutions, not individuals. And the rapid-fire trading by hedge funds actually helps small investors, because it creates liquidity that drives down spreads. In any case, a class of fund is not bad just because it brings with it the potential to invest unwisely. ETFs are “just another tool in the box,” says James Kelly of Kelly Capital Management. “And any tool can be misused.” Still, ETF firms, fearful of a backlash, have been spending heavily on educating investors about the possible pitfalls.

None of this is likely to slow the pace of innovation. A big challenge for the industry is to create a fully active ETF that is able to move in and out of individual stocks, like a traditional mutual fund, while being tradable, like a stock. BGI and State Street have teams working on the problem—a problem because ETFs are inherently transparent, whereas active funds guard their strategies jealously, fearful that they will be copied. If active ETFs can be made to work, and receive the SEC's blessing, they could take the business

to a new level.

Another attractive area is retirement accounts, where ETFs have the potential to become much bigger. They have already made headway in some emerging markets. Since Mexico allowed ETFs into its retirement system, Barclays' iShares Funds have come to account for some 15% of all trading on its stockmarket.

Mr Kranefuss touts ETFs as a “paradigm-buster”. Such claims should always be treated with caution. But who would bet against his assertion that they will one day match traditional mutual funds in size and influence?

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Buy-outs in Canada

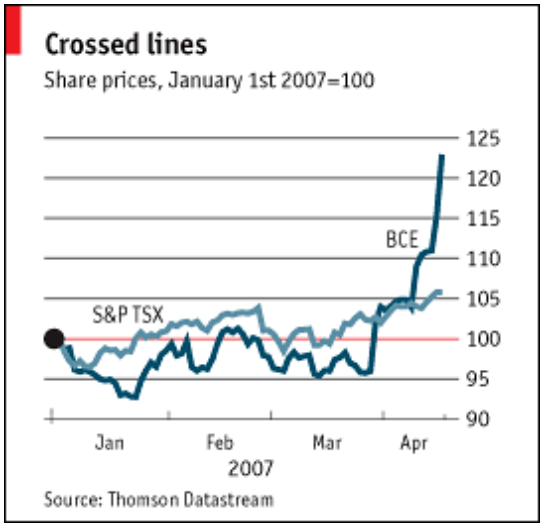
DIY

Apr 19th 2007 | OTTAWA
From The Economist print edition

Pension funds circle a national treasure

NO ONE was terribly surprised this week when Bell Canada Enterprises, owner of the largest telephone company in Canada, with a market value of C$31 billion ($27.5 billion), looked as if it was about to become the target of competing takeover bids. Its share price had languished for months (see chart) and managers had failed to come up with much of a plan for the business.

What has raised eyebrows, however, is the nature of the likely bidders. BCE's pursuers come from the ranks of the largest public pension funds in Canada, all seemingly intent on taking a direct stake in the telecoms company and relegating private-equity firms to the role of junior partner.



On one side is the Ontario Teachers' Pension Plan, which invests C$106 billion on behalf of 271,000 active and retired teachers. It is thought to be allied with Providence Equity Partners, a Rhode Island firm specialising in communications buy-outs. On the other, the Canada Pension Plan Investment Board, with assets of C$110.8 billion, the Caisse de dépôt et placement du Quebec, with C$143.5 billion under management, and the Public Sector Pension Investment Board, with C$35 billion. Helping them out is Kohlberg Kravis Roberts, a private-equity firm that is, unusually, taking a backseat role.

Although private-equity investment by pension funds is not new, their preferred route has been to use the services of a buy-out firm, even though that means paying high fees. Not with BCE, however. “They are cutting out the middleman,” says Keith Ambachtsheer, a Toronto-based pensions specialist and author of the book, “Pension Revolution”.

Ontario Teachers' Pension Plan, the most active investor among Canada's pension funds, has been dabbling in private equity since 1991. Privately held shares and capital investments in infrastructure and timber holdings make up about 12% of the plan's portfolio. “The large Canadian pension funds are somewhat unique in that they do a lot of their investing with internal staff,” says the fund's Robert Bertram. His group does about half its private investments in-house and in those deals it saves the annual fee of 7% that it says it typically pays private-equity firms. That is a big saving given an average return on private capital of about 25%. Ontario Teachers' resorts to an outside firm when it feels it lacks expertise or financial clout.

Pension funds in other countries have not developed a taste for direct acquisitions as readily as have Canada's. Partly that is because other countries' institutions may have mandates that stop such activity, says Kirk Falconer of Thomson Financial, a data provider. Some funds in the Netherlands and Britain have taken a similar approach, but they are rare.

Along with their do-it-yourself spirit, Canada's pension plans are bulking up on infrastructure assets worldwide, both directly and through private-equity intermediaries. Ontario Teachers' is buying the New York Container Terminal from Orient Overseas, a transport firm. Last year, it was part of an unsuccessful bid to buy BAA, a British airport operator. The Canada Pension Plan Investment Board, meanwhile, is part of the consortium that owns AWG, parent company of Anglian Water in Britain. It also has interests in a gas-distribution company in Wales and an electrical-transmission company in Chile. Infrastructure appeals to pension plans because it has offered stable returns over long periods and can sustain high debts.

Much of the infrastructure investment has taken place outside Canada, says Mr Bertram, because governments in places like Britain and Australia have got the regulatory mix right, whereas the

government of Canada has not. The takeover of BCE may be different. It would be one of the largest—and possibly the most controversial—in Canadian history both because American buy-out firms are in action and also because the “widows and orphans” stock is one of the most widely held in Canada.

Yet if anyone can force through a deal, it is the pension funds, which represent almost all the workers in Canada. That should dampen fears, common in the country, that a national asset is about to pass into foreign hands. Whether Canadians would welcome the passing of a big publicly held company into private hands is another matter. Mr Ambachtsheer says the swing back to more concentrated control tends to leave companies in the hands of motivated owners who can keep a closer watch on managers. To look at it another way, the workers may finally be in charge of the business.

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Financial services

Sallie Mae's big day

Apr 19th 2007 | NEW YORK
From The Economist print edition

Private equity moves into new territory

HOW did student lending ever get this racy? Recent weeks have brought probes into unsavoury business practices and a torrent of political invective. The largest private student lender, Sallie Mae, rushed last week to settle with New York's attorney-general. And now it is to be rescued from the glare of public ownership by a group of private-equity firms and banks. The deal values Sallie at $25 billion, making it the largest leveraged buy-out of a financial-services company.

Until now, big financial firms have been considered largely immune to buy-outs, for two reasons. First, their business is regulated, making it a political minefield. But as private equity has grown more confident, it has become more willing to accept the “operational risks” that regulation brings on top of the normal balance-sheet risks of buy-outs. The Sallie deal looks to be part of a pattern that began with an offer to take Texan utility TXU private in February.

Second, lenders place a premium on keeping borrowings modest and credit ratings high. The mounds of debt and sharp rating downgrades that typically come with buy-outs would leave them unable to access cheap funding from capital markets, and thus struggling to lend at higher rates than they could borrow at.

With $55 billion in debt, Sallie was already highly leveraged. So the deal had to be cleverly structured. The firm already securitises many of its own loans. It plans to do even more of this, which should provide it with a steady funding stream.

But securitisation markets for private loans, which make up 15% of Sallie's portfolio (the other 85% is guaranteed by the government), are not certain to remain liquid. That is why the deal contains a “Plan B”: credit facilities of $200 billion from Sallie's two new bank-shareholders, Bank of America and JPMorgan Chase. Even if Sallie's debt falls to junk levels and its access to capital markets is restricted, these will give it a cushion to fall back on. This arrangement “ends the insanity of being hostage to the rating agencies”, says a banker who worked on the deal.

The two banks, which will each own 24.9% of Sallie, see numerous benefits. They can now use Sallie to securitise their own student loans. And they will gain exposure to Sallie's bright, young clients. The attraction for the two private-equity firms that will own 50.2% between them—J.C. Flowers & Co and Friedman Fleischer & Lowe—is an undervalued company with good cashflow in an industry with lots of promise, despite its problems. With student numbers growing and tuition costs rising at twice the pace of inflation, Sallie's private-loan business is booming.

Richard Hofmann of CreditSights, a research firm, thinks the deal could encourage more financial firms to use buy-outs as a way to invest in competitors. But big commercial banks are unlikely targets because, unlike Sallie Mae, they take deposits and thus suffer extra regulatory burdens and higher capital requirements. Moreover, few have the combination of high-quality assets and an enviable franchise that make Sallie such a good buy-out candidate, says Christopher Flowers, the driving force behind the deal.

If his record is any guide, Mr Flowers should emerge considerably richer. His greatest triumph, the resuscitation of Japan's Long Term Credit Bank, renamed Shinsei, netted him a 700% return. He recently raised a multi-billion-dollar fund for financial-services acquisitions, reportedly throwing over $200m of his own money into the pot. Not enough to buy Citigroup, perhaps, but plenty for him to spring more big surprises.

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Mid-sized private-equity deals

When less is more

Apr 19th 2007
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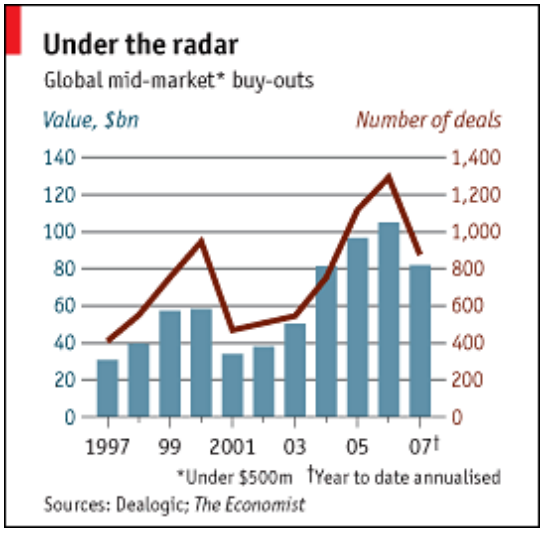
Despite recent big splashes, most private-equity deals are modest and friendly

HEADS barely turn these days at the size of private-equity transactions. Two years ago, a $25 billion buy-out of any company would have been hard to imagine. Yet either Sallie Mae or Bell Canada Enterprises, both approached this week, could fetch that.

But what happens in the underbelly of the business world, where deals are done away from the glare of publicity, and are far smaller in size? Here activity is just as brisk and, as with the megadeals, competition is heating up.

Dealogic, a data gatherer, tracked 1,294 buy-out deals of less than $500m last year, about three-quarters of which were under $100m. That is up from 752 in 2004 (see chart). By contrast, there were 243 buy-outs of more than $500m, up from 131 two years earlier.



Although smaller deals involve much less debt than the bigger ones, the amount of leverage is creeping up. Some in the industry blame over-eager lenders. “The banks have a voracious appetite for repeating their sins of the past, which is lending too much money,” says Jay Jordan of Jordan Industries, a long-time investor in small and middle-market firms. But for every lender, there is also a borrower, encouraged to bet heavily by the record of private-equity deals. Research released recently by Towers Perrin, a consultancy, found that although buy-outs of more than $1.5 billion register a strong performance six months after a deal (outperforming all mergers and acquisitions by 13.8%), that edge is trimmed to just 1.1% after 18 months. It found mid-market deals outperformed others by about 7% over an 18-month period.

Private-equity firms focusing on the mid-market face their own challenges, however. As competition grows, prices are rising. The competition is being fuelled, in part, by the increased use of “auctions” in which an intermediary (often an investment bank) attracts numerous potential buyers with the goal of squeezing a higher price for the seller. This forces mid-market firms to build their own sourcing networks, and to become more specialised. The good news is that, as the private-equity industry becomes better known, more small companies, including family-owned firms, turn to it for capital and advice. For an industry that has received a lot of unwelcome attention recently, it is nice to be wanted by someone.

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Remittances

Handled with care

Apr 19th 2007 | MEXICO CITY
From The Economist print edition

Central banks try to make it cheaper for people to send money home

ACROSS the Mexican countryside, villages are denuded of their working men but kept alive by their labour. The northward exodus to America numbers about 500,000 people a year. The money sent in the other direction in the form of remittances amounted to about $23 billion in 2006, according to the Bank of Mexico, the country's central bank, up almost sevenfold in a dozen years. As that number has grown, so others have fallen: the fee for remitting money has dropped from an average of 9.2% in 1999 to 3% in January 2007, according to Bancomer, a Mexican bank.

Transmitting money has become cheaper partly because the cheques have become bigger, from $290 on average eight years ago to $350 now. More importantly, over 90% of remittances are now sent by electronic wire-transfer, according to the Bank of Mexico, compared with only half in 1995. However in rural communities in Mexico, where every peso counts, even 3% is a big bite out of a remittance cheque. That is why the Bank of Mexico and America's Federal Reserve are running a programme, called *Directo a México*, to cut the cost further.

AP

A load off his mind

Under this scheme, people receive an overnight transfer from an American bank account to a Mexican one. The two central banks act as middlemen, taking a cut of just $0.67 no matter what the size of the transaction. Banks then typically charge $2.50-$5 to transfer about $350, says Elizabeth McQuerry of the Fed. All told, the scheme cuts the costs of remittances by half or more. The system is still in its infancy. It handles only 27,000 transactions a month, about 26,000 of which are social-security payments made by the American government to beneficiaries in Mexico. But its popularity should grow. In America 200 banks are now signed up to the service, compared with just six at its launch in 2004. The scheme's snappier name is also new; its official title is the FedACH International Mexico Service. This attempt at “branding” the system should widen its appeal, says Ms McQuerry.

Brand recognition is not the biggest obstacle facing the scheme however. Most of Mexico's poor, the intended recipients of the funds, do not have bank accounts to pay them into. Much therefore depends on another programme, run by Bansefi, a Mexican government bank, which allows people in America to open bank accounts in Mexico from afar. Their relatives can then use these accounts to withdraw the money deposited through *Directo a México* (or otherwise transferred to the country).

Do the migrants themselves have accounts to send money from? As many as 70% do, according to a recent report by the Bank of Mexico. This is largely because hundreds of American banks, eager for deposits, will gladly open accounts for people carrying only a Mexican consular identity card, rather than official United States government identification. This allows people to formalise their finances without formalising their immigration status. Bansefi has seen rapid growth, with 3.4m accounts now open, compared with 850,000 in 2001. If banking continues to spread on both sides of the border, Mexico's villages should continue to benefit from the fruit of their emigrants' hard work, without it being squeezed along the way.

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Energy trading

Weather patterns

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From The Economist print edition

How to forecast the forecasters

IF YOU think the weather is unpredictable, consider the weathermen. They are constantly revising their forecasts, causing inconvenience not only to those pondering whether or not to take an umbrella, but also to commodity traders placing bets on how much gas and electricity will be needed for heating. When their predictions turn from cold snap to heat wave, say, it can play havoc with the forward price of gas.

WSI, a firm that owns the Weather Channel and sells forecasts of its own to airlines and other weather-dependent companies, has been grappling with this problem. Its solution is a new product called MarketFirst, a sort of forecast of the forecast. Every day, an hour before America's National Oceanic and Atmospheric Administration releases its updated forecast for the world's weather, WSI issues its own prediction of how the new bulletin will differ from the previous one. It does the same for the EU's official forecast. A year's subscription to MarketFirst, launched last November, costs $90,000, and WSI says it has already signed up a dozen customers.

MarketFirst would be of little use if it was as unreliable about the forecasts as the forecasts are about the weather. But WSI claims it is right 70% of the time. The trick, says Ira Scharf, who is in charge of selling it, is to understand the algorithms that underpin the government's forecasts. WSI has been studying them for years to improve its own forecasts and has detected the subtle biases in both the American and European models. European weathermen, for example, underestimate temperatures for western America in spring and autumn. American ones are prone to predict chillier temperatures than they should for the period from 11 to 15 days from the time of the forecast.

The more widespread MarketFirst becomes, the less useful it will be to its subscribers, Mr Scharf concedes, since markets would begin to move in response to its release, rather than to the forecasts it anticipates. So WSI considered various methods of selling it, including releasing it earlier to certain customers for a higher fee. Another option would be to sell a forecast of the forecast of the forecast. So far, Mr Scharf says, traders do not see the need. But in the long run it is as inevitable as changes in the weather.

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Economics focus

Womenomics revisited

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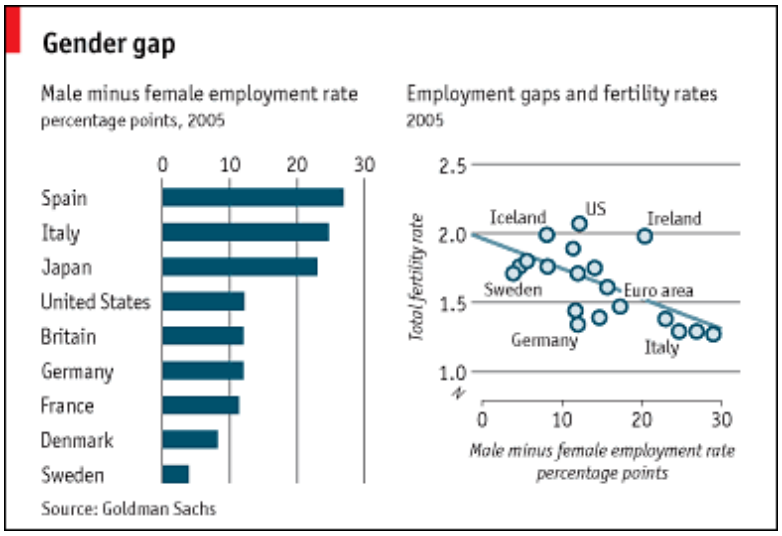
If more women were in paid work, the world could be much richer

MEN like to believe that they run the world. They are not deluding themselves. In politics, men still dominate most of the planet's governments and legislatures. In economic life, they rule its boardrooms and have most of the best-paid jobs. Women, meanwhile, do by far the greater part of the world's unpaid work. Granted, some details of the canvas are changing: women's share of the workforce is much higher than it was a generation ago, and they comprise the majority of university students in some countries. Nevertheless, it is still a man's world.

And a wasteful one. Were more women in paid employment, according to a run of recent studies, the world would be better off. The waste is surely worse in poor countries than in rich ones. A report this week by the United Nations Economic and Social Commission for Asia and the Pacific concludes that sex discrimination costs the region $42 billion-47 billion a year by restricting women's job opportunities. A gap of 30-40 percentage points between men's and women's workforce participation rates is common. The poor state of girls' education costs a further $16 billion-30 billion. And those are just the economic costs, before violence against women and access to health care are counted.



But rich countries undervalue women as well. Just look at the gap between male and female employment rates in America, Japan and western Europe, as Kevin Daly, an economist at Goldman Sachs, does in a recent study (see the left-hand chart). In Sweden, where around 70% of females aged 15-64 are in work, the gap is less than five percentage points. In America and Britain it is around a dozen points. In Italy, Japan and Spain it is over 20 points. Suppose, says Mr Daly, that women's employment rates were raised to the same level as men's; and suppose that GDP rose in proportion with employment. Then America's GDP would be 9% higher, the euro zone's would be 13% more, and Japan's would be boosted by 16%.

That may be a bit of an overstatement. Add so many people to the workforce and average productivity would probably fall. Given the chance to work, many women may do so part-time rather than full-time; some men with working partners may make the same choice. Nevertheless, the boost to GDP would still be substantial. Mr Daly notes that were euro-zone productivity raised to American levels—a commonly cited idea—the single-currency club's GDP would rise by only 7%.

You might object that looking at GDP itself overstates the benefits. With more women in work, some of what they now do unpaid—caring for children, cleaning, preparing meals—would be bought in. So some work would be counted, and added to GDP, simply because it was supplied in the market not the home. True, says Mr Daly, but only to a limited extent. Pay in child care tends to be low, so the offsetting factor

is not very great. Even in Sweden pre-school care accounts for only 1.2% of GDP, a small sum compared with the gains on offer.

A taxing question

None of this would matter much if low female employment rates and the output forgone were purely a matter of choice. Mr Daly argues that they are not. Many women would like to work, or to work more, if they could find affordable child care; subsidies for child care, not surprisingly, tend to raise the probability that a mother returns to work. And in many countries, second earners (usually women) face higher average tax rates than the main breadwinner. In Sweden, an exception, average tax rates are the same; in Italy and Spain second earners' rates are 60% more than their partners'. Alberto Alesina and Andrea Ichino, two Italian economists, have suggested going further than merely equalising tax rates. Because women's labour supply is more sensitive to tax rates than men's, theory suggests that their rates should be lower—in Italy, they say, as much as 32% lower.

A higher rate of female employment could help to deal with the difficulties posed by an ageing society. With a higher share of people in work, the ratio of retired people to workers would fall. And Mr Daly argues that it would not reduce fertility rates, as some people may fear. In fact, where the gap between male and female employment rates is small, women tend to have more babies (see the right-hand chart, above). The reason seems to be that in countries where taxes on second earners are high or affordable child care is hard to find, women must often choose between children and work, especially if their incomes are low. Where second earners are not penalised by taxes or where child care is cheap (or subsidised), they can have both.

As Mr Daly says, he is describing a changing picture. Even in Italy and Spain, female employment rates have climbed rapidly in the past decade. A narrowing of the gap between men's and women's employment rates has accounted for half of the rise in the euro area's overall employment rate and for 0.4 points of its 2.1% trend annual increase in GDP since 1995. This has done more for Europe's labour markets, he avers, than have “conventional” reforms. America's female employment rate, meanwhile, has recently declined—perhaps for cyclical reasons. Japan's low rate has not risen much.

Even with no change in policies, the employment sex gap is likely to close further. Probably the biggest changes are under way in Spain. The participation rates of Spanish women of different ages are similar to France's or Germany's 15 years ago. Those in their 20s are now more likely to work than their American sisters. A continuation of this trend, Mr Daly thinks, may add almost half a percentage point to Spain's annual growth rate over the next ten years, and maybe more if policies change. In the euro area as a whole, a quarter of a point is on offer.

The countries with most to do are Italy and Japan. But by the same token they also have most to gain. In Italy, even on recent trends an extra 0.3 points a year of GDP growth may be had. Japan is heading for only an extra tenth of a point, but could gain half a point a year if policies change. Men run the world's economies; but it may be up to women to rescue them.

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Nuclear fusion

Firing new shots

Apr 19th 2007
From The Economist print edition

Using lasers to trigger fusion could prove cheaper than other techniques

Stephen Jeffrey

Get article background

WHEN lasers were invented in the 1960s they were little more than an exotic curiosity—a solution looking for something to solve. Now that lasers are found in everything from telephone cables to DVD players to the humble laser pointer, they have become almost prosaic. Time, then, to rekindle a little glamour, by using lasers to bring about nuclear fusion, the great prize of energy research. Next month researchers will try to persuade the European Commission to pay for the biggest laser-fusion project yet.

Nuclear fusion is a compelling idea. The sun and stars are daily proof of the great energy released when light atomic nuclei join together. Lots of power could be produced using very little fuel. No greenhouse gases would be released. The fuel is abundant, the process safe and the waste, though radioactive, is far less noxious than the stuff left over from fission. Unfortunately, in spite of more than 50 years' work and billions of dollars of backing, no one has yet managed to get an Earth-bound fusion reaction to produce useful energy.

The idea of using lasers to trigger fusion has a long history. It is partly behind the National Ignition Facility at the Lawrence Livermore National Laboratory in California, due to be completed next year, and a slightly larger effort, called the Laser Mégajoule, in France that is a couple of years further off. Most of the work done by Livermore's 192 powerful lasers, focused on a spot just a millimetre or so across, will be nuclear-weapons research. But some of the time they will blast a pellet of nuclear fuel. The fuel will be made from two heavy forms of hydrogen, called deuterium and tritium. Zap it from all sides simultaneously with the lasers and, scientists hope, the pellet will implode and the hydrogen nuclei will fuse. They would form helium and a subatomic particle, called a neutron. The neutron would carry energy that could be converted into heat. In principle, this heat could be used, as in conventional power plants, to boil water and create steam that drives a turbine.

Taking aim

Laser fusion is the poor cousin of magnetic-confinement fusion. That technique uses a magnetic field to hold large volumes of the same isotopes of hydrogen inside a doughnut-shaped vessel, called a tokamak. The gas must be far hotter than the dense matter at the centre of the sun for fusion to happen. At such temperatures atoms are stripped down to their electrically charged components, so the helium created by fusion remains within the magnetic bottle. But the electrically neutral neutrons escape to the walls of the vessel where the energy they carry can be used to generate power.

Construction of the world's main demonstration power plant that will use magnetic confinement is under way at Cadarache in France. It is a joint project between America, most of the European Union, Japan, China, India, Russia and South Korea. Called the International Thermonuclear Experimental Reactor (ITER), it will cost some $5 billion to build, $5 billion to run for 20 years and a further $1 billion to decommission. The builders should have moved out by 2016.

Laser scientists want a slice of this action. Their bid to the European Union is to build an international laboratory, called “HiPER”, to run in parallel with the ITER machine. Bureaucrats in Brussels are interested. Canada and Russia have become involved and talks are under way with America, China, Japan and South Korea. The price tag is relatively cheap: a mere $1 billion.

HiPER would use a promising new “fast ignition” technique. This laser-fusion technique was achieved in 2001 by Ryosuke Kodama and colleagues at Osaka University in Japan. The standard approach, being pursued in America and France, works like a diesel engine by compressing the fuel until it ignites. This calls for the lasers to be very finely tuned and the fuel pellet to be perfectly smooth, so that the implosion is symmetrical and fusion occurs. The fast-ignition technique is more like a petrol engine: first the fuel is compressed and only then is it ignited by a second laser pulse—acting as a spark plug—that is fired through a hole in the pellet.

The upshot is that nuclear fusion can happen using rough-and-ready lasers and rough-and-ready fuel. Fast ignition also takes less powerful lasers, because the reaction rides on the energy contained in the pellet after the first pulse. So it is more efficient, too.

Japan's laser-fusion programme is like the proposed European one, but is smaller in scale. It does, however, have the advantage of already having started, so future upgrades will give a chance to compare results from the Japanese machine with the American and French results, which are expected in the next few years.

Lasers offer some obvious advantages over magnetic confinement. Because laser beams can run for long distances, the fuel does not have to be right next to the lasers that generate them. This means they can be easily shielded from the damaging neutrons. Fuel pellets can also be placed in the target site using conventional mechanical systems and these should easily be able to cope with the five mini-explosions a second needed to generate power.

There is one problem with nuclear fusion that lasers cannot solve, however: the price. HiPER may be budgeted to cost just one tenth as much as its magnetic cousin. But $1 billion is a lot of money all the same. Whether the benefits are worth such costs remains written in the stars.

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Hypertension

Raising possibilities

Apr 19th 2007
From The Economist print edition

High blood pressure may originate in the brain

THE first step to defeating an enemy is to pin down his exact identity and how he operates. Hypertension—chronic, abnormally raised blood pressure—causes heart attacks, strokes and a multitude of other nasty conditions. Around a third of Americans and Britons suffer from it. It is thus a worthy enemy and nailing its cause is a priority. Until now, this has mostly seemed to lie in the kidneys. But Hidefumi Waki and Julian Paton of Bristol University think they have gathered some valuable new intelligence—by studying the brain.

In a previous experiment Dr Waki and Dr Paton had found that rodents with high blood pressure expressed some genes differently in an area of the brain, called the solitary nucleus, which sets the body's normal blood-pressure level. One of these genes was called “junctional adhesion molecule-1” or JAM-1 for short. It is a molecule normally found in the walls of blood vessels that attracts clotting and immune cells—in other words, it causes inflammation. So the pair decided to look at JAM-1 in further depth.

They found that in rats with high blood pressure JAM-1 levels were raised not only in the brain but also the kidney, spleen, lungs and skeletal muscle. To find out whether this was the cause or effect of high blood pressure, they then transferred the JAM-1 gene into the solitary nucleus of normal rats. After two weeks, these rats suffered from higher blood pressure than rats that had not received the gene. The researchers will publish the work next month in *Hypertension*.

Previously, experts thought that high blood pressure was caused by the kidneys. The idea was that the kidneys failed to sense the blood pressure. This then caused the lungs to make a hormone that increases blood pressure, leading to a chain of events that raised pressure throughout the blood-vessel network. All blood-pressure-lowering drugs work by seeking to put this right. Yet blaming the kidneys cannot be the full explanation of what is going on, because only half the sufferers respond to blood-pressure-lowering drugs.

Uncovering exactly how raised levels of JAM-1 disrupt the brain's ability to control blood pressure is the next step in tackling the disease. Dr Paton predicts that the molecule may alter levels of neurotransmitters, which control how signals pass from one nerve to the next. Perhaps, peripheral blood vessels are mistakenly told to constrict, increasing blood pressure.

Although these findings are preliminary, they have far-reaching implications. Variations in the JAM-1 gene and its expression may explain why high blood pressure tends to run in families, although it is also caused by a poor diet. The finding also shows that the brain could increase the activity of the sympathetic nerves, the part of the nervous system involved in stress response. Ultimately, the finding could hasten the development of drugs that would attack hypertension at its source, stopping its deadly consequences in their tracks.

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Evolutionary biology

A wriggly question

Apr 19th 2007
From The Economist print edition

Man's brains and nervous system may have been inherited from a worm

ABOUT a billion years ago Earth is thought to have been home to a small worm-like creature in which the main distinguishing feature was a body that was symmetrical across an axis running from head to tail. Named *Urbilateria*, it was the mother and father of two great animal lineages—protostomes, whose members include insects, molluscs and all manner of worms; and deuterostomes, whose surviving members include all vertebrates. Researchers in Germany now have evidence that symmetry was not all *Urbilateria* bequeathed to its descendants: it may also have passed on a central nervous system, which some of the descendants later lost. The unexpected complexity of man's ancestor raises some troubling questions for evolutionary biology.

Within the animal kingdom, the simplest and most evolutionarily ancient type of nervous system is a diffuse neural net, in which one type of nerve cell, mediating both sensation and movement, is spread throughout an organism. Sea anemones and corals have diffuse nets. A central nervous system—in which specialised sensory and motor nerve cells are clumped together into a nerve cord and brain—is usually the mark of more recent evolution.

Zoologists observed centuries ago that a tiny marine worm called *Platynereis dumerilii*, a humble protostome thought to be the living species that most closely resembles *Urbilateria*, also boasts a central nervous system. Oddly, *Platynereis* has its nervous system in its belly, whereas vertebrates keep their nerve cords in their backs. In the absence of any fossils of the extinct ancestor, zoologists chose to believe that *Platynereis*'s nervous system was somehow different from the one found in the vertebrate lineage. The common ancestor had a diffuse neural net, they claimed, and the central nervous system must have developed after the two lineages split. Thus, they neatly side-stepped the problem of explaining how the nerve cord got from the worm's tummy to the vertebrate's back.

Not everyone agreed. In 1875 Anton Dohrn published a controversial alternative theory—that *Urbilateria* had a central nervous system—and was promptly shot down in flames. Detlev Arendt of the European Molecular Biology Laboratory in Heidelberg now thinks he can demonstrate that Dohrn was right. His evidence is published this week in *Cell* magazine.

Dr Arendt and his colleagues compared the molecular fingerprints of the nerve cells of *Platynereis* with that of a vertebrate, the zebrafish. They selected around 30 genes that are implicated in nervous-system development and looked at which other genes regulate them, as well as the cell signals they in turn control. Having labelled the genes with coloured fluorescent markers, they tracked the interactions of their protein products in developing nerve cells under the microscope. The molecular fingerprints of nerve cells in the worm and the fish were almost identical. Moreover, both species' nerve cells responded similarly to a molecule known to be involved in the early stages of vertebrate embryo development, when the cells grow in such a way that the creature's front becomes distinct from its back.

The findings have certainly stirred things up. Max Telford of University College London thinks the developmental evidence shows *Platynereis* and vertebrates inherited their nervous systems from a common ancestor. Others dispute this. Chris Lowe of the University of Chicago has shown that the worm he studies—another descendant of *Urbilateria*—uses the same mechanism as vertebrates to develop a front and back, even though it has a diffuse nervous system. Thus the development of front and back has been decoupled from the development of a central nervous system in one worm at least, and he argues that the same separation may have existed in *Urbilateria*.

If Dr Arendt is right, he has to explain how vertebrates came to carry their nerve cords on their backs. He envisages a filter-feeding marine ancestor half-buried in the sea bed, its exposed belly and nerve cord protected by bony plates. One day, this creature left the seabed and swam. Surrounded by water, front and back lost significance, and the inversion took place without any big shift of the nerve cord relative to other organs. Having embraced a new way of life, the proto-vertebrate simply turned a different face to

the world.

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Epigenetics

Serenity and the farm

Apr 19th 2007
From The Economist print edition

Domestic birds are susceptible to stress—and so are their broods

DOMESTICATION seems to make animals dumb. Without the need to forage, domestic creatures have gradually lost some of the wits displayed by their wild cousins. Now researchers studying chickens have not only confirmed this but also found other changes brought on by farming. In particular, the dumbness would appear to be aggravated by stress. Moreover, chicks born to stressed hens act as though they too are stressed, even when they have been raised in a poultry paradise.

AFP

Are you looking at me or chewing a brick?

Per Jensen, of Linkoping University in Sweden, and his colleagues ran an experiment with four groups of fowl. Two of these were red junglefowl from a local zoo (all domestic chickens were originally bred from red junglefowl at least 5,000 years ago); two were white leghorn chickens (a modern farmyard variety). One group of junglefowl and a group of chickens lived a contented, uneventful life; the others knew only chronic stress from the age of five weeks. That stress came from unpredictable periods of light alternated with darkness, lasting anytime from three to 24 hours.

When the birds were between four-and-a-half and nine months old their spatial memory was tested. One by one, they were placed in a maze consisting of a central path with several routes leading off it. One of those routes—always the same one—led to food. The researchers measured how quickly the animals learned by seeing how long it took hungry birds to choose the correct route on five of six consecutive tests. Then the offspring of the four groups, which were all raised in comfortable surroundings, were put through the same test.

Overall, Dr Jensen's junglefowl were better at remembering their way around the maze than were his chickens, whether or not they were stressed. That makes sense because a domestic chicken with a dippy spatial memory would survive but a forgetful wild bird would go hungry.

Stress affected the memories of domestic chickens alone. Those raised in an unpredictable environment had a worse spatial memory than their calmer counterparts and, weirdly, that effect was repeated in their offspring, even though those chicks had grown up contented.

That done, one stressed and one relaxed junglefowl were pitted against each other in a pen with only one feeder. Fraught and chilled-out chickens got the same treatment, and the experiment was repeated for many different pairs. This time both stressed junglefowl and stressed chickens competed aggressively for food. (If you do not know when the next day is coming, and hence the next meal, it makes sense to stock up while you can.) But only in stressed chickens were the same greedy habits passed on to the next generation.

Why this might be remains uncertain. Dr Jensen tested the levels of coricosterone, a stress hormone, in the yolks and whites of stressed hens' eggs. But these were no different than the levels in contented hens. As Dr Jensen describes in last week's issue of *PLoS ONE*, the most likely explanation for these results is that stress can induce changes in the patterns of genes that are expressed in bird brain cells, and these patterns are passed on to the offspring in chickens alone. Dr Jensen thinks his results have shown that domestication in general may select for animals that respond more to stress, presumably so that they and their offspring can better cope with unpredictable owners.

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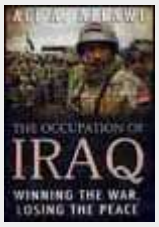
The occupation of Iraq

It might have been otherwise

Apr 19th 2007
From The Economist print edition

The lament of an Iraqi politician who supported the war

The Occupation of Iraq: Winning the War, Losing the Peace
By Ali A. Allawi



Yale University Press; 518 pages; $28 and £18.99

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Daniel Pudles

Get article background

IF LIBERATING a nation from an egregious dictatorship had been the initial impulse behind the invasion of Iraq, it might have been a “just war”. Instead, writes Ali Allawi in the poignant closing pages of this book, when Saddam Hussein's supposed weapons of mass destruction failed to materialise, other justifications became necessary. Freedom was an afterthought.

No one had wanted to believe in the justice of the enterprise, and in its ultimate success, more fervently than Mr Allawi. He had watched, from exile, his compatriots suffer. He had worked with the diverse, fractious Iraqi opposition. He was a true believer. Then, after the regime was toppled and he became defence, then finance, minister in successive post-Saddam governments, he had an inside seat as the whole thing unravelled.

Others have chronicled what went wrong. Few have witnessed events so close up, and with so intimate a knowledge of the gap between (Iraqi) reality and (American) expectation. “The entire process of planning for a post-war Iraq”, he writes, “was mired in ineptitude, poor organisation and indifference.” The first post-Saddam administration, the Coalition Provisional Authority (CPA) under Paul Bremer, became trapped in “blindly optimistic” group-think. It was reluctant to call the insurgency by its name; it squandered reconstruction money; it addressed the Iraqi public with “alien rhetoric”. Mr Bremer himself displayed “distaste, bordering on contempt” for some of the figures in the Iraqi Governing Council (IGC), the body he set up to put an Iraqi face on the occupation. Not surprisingly, the CPA and the IGC viewed one another with mistrust and not a little incomprehension.

Most of this critique is familiar enough. What sets it apart is Mr Allawi's angle of vision, as a thoughtful Shia Muslim intellectual, loyal to his community but determined to be fair-minded.

It has become commonplace, for example, to say that the Americans were woefully ignorant of Iraq's turbulent history and tangled sociology. Mr Allawi goes much further, arguing persuasively that they fundamentally misread Iraq's political culture. They simultaneously overrated the power of its secular middle class and underestimated the attachment of the majority Shias to their faith and to their religious leaders. The idea that the mass of Iraqi Shias would be willing accomplices in their country's makeover into a secular, liberal democracy—which America's neo-conservatives clung to as an article of faith—was absurd.

This fundamental error led to others. There was the naive belief that Ayatollah Ali Sistani, the most senior Shia cleric, favoured the separation of mosque and state when, in fact, it was he more than anyone else who was to secure the electoral triumph of the Shia Islamists. And the young firebrand Muqtada al-Sadr was written off as a street thug rather than the leader of a loose-knit but significant grassroots movement among the Shia poor.

Mr Allawi does not spare the occupiers. For him, the fortified Green Zone in Baghdad became over time the symbol of all that had gone wrong since the invasion: an air-conditioned bubble in which a ruling elite wrapped itself, wholly out of touch with the chaotic, violent world of ordinary Iraqis outside.

But he does not spare his fellow Iraqi politicians either. The new political class has presided over an “explosion in corrupt practices, bordering on the open plunder of the state's resources”. Mr Allawi, who is in a position to know, narrates in depressing detail how millions of dollars of the defence-procurement budget were spirited out of the country during the interim government of his cousin, Iyad Allawi. He implies that several heads should have rolled; none did. Lacking any coherent vision for the new Iraq, an often corrupt and incompetent coterie perpetuated many of the mistakes of Mr Bremer's CPA, compounding them with new ones of their own.

Mr Allawi is as impartial as it is possible for someone in his position to be (no longer a government minister, he is an adviser to the current prime minister). But he does have opinions. Some may think him too harsh on Iyad Allawi, whose interim government he clearly sees as an unnecessary way-station on the road to Shia empowerment, and too indulgent towards his colleague Ahmad Chalabi, the Iraqi politician who more than any other seduced policy wonks in Washington into believing that Iraq would be easy. Mr Allawi is a moderate but, unlike Mr Chalabi, he is no secularist. A devout man, he is sympathetic to Shia Islamism, though by no means blind to its excesses. He acknowledges that Iran is stirring the Iraqi pot but has no time for the shriller forms of Iran-bashing.

One can dissent from one or other of these positions. But the thing about Mr Allawi is that reasonableness keeps breaking through. “It might have been otherwise,” he laments, more in sorrow than in anger, as he reflects on the whole sorry saga. Might it? People such as Mr Allawi, who put their faith in the invasion of Iraq, are entitled to feel betrayed.

The Occupation of Iraq: Winning the War, Losing the Peace.
By Ali A. Allawi.
Yale University Press; 518 pages; $28 and £18.99

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Financial markets

Copy the lowly cockroach

Apr 19th 2007
From The Economist print edition

SPOOKED by the subprime-mortgage mess? Queasy about collateralised debt obligations? Investors of a nervous disposition should steer clear of Richard Bookstaber's “A Demon of Our Own Design”. He understands the inner workings of financial markets. And he doesn't like what he sees.

A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation
By Richard Bookstaber

Wiley; 276 pages; $27.95 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

An options-theory egghead who swapped maths for mammon, Mr Bookstaber spent much of the 1980s and 1990s as a “quant” (designer of mathematical models), and later as a senior risk manager, at Morgan Stanley and Salomon Brothers. He was, as he sheepishly puts it, “in the vicinity” when stockmarkets tumbled in 1987 and Long-Term Capital Management (LTCM), a hedge fund, disappeared down the plughole a decade later.

Bright sparks like Mr Bookstaber ushered in a revolution that fuelled the boom in financial derivatives and Byzantine “structured products”. The problem, he argues, is that this wizardry has made markets more crisis-prone, not less so. It has done this in two ways: by increasing complexity, and by forging tighter links between various markets and securities, making them dangerously interdependent. As the system has grown more tangled, tougher regulation has only made things worse. Ironically, so too has the ocean of capital sloshing through markets in recent years. This has encouraged ever bigger bets with borrowed money, even though every seasoned investor knows that liquidity is the first thing to disappear when trouble strikes.

Worse, the fancy products cooked up by banks often have unintended consequences. That is because they are designed assuming rational behaviour, whereas markets have a nasty tendency to react unpredictably. Mr Bookstaber knows all about this, having played a key role in the creation of, among other innovations, “portfolio insurance” programmes. Instead of reducing risk and dampening shocks, as intended, these exacerbated the October 1987 crash.

Though he accepts that the quants deserve some of the blame, Mr Bookstaber rushes to the defence of the hedge funds that today employ so many of them (including himself). They are to capital what retailers are to clothing, trying to anticipate market demand and stockpiling accordingly. Those who see them as part of the problem are like that mob in an episode of “The Simpsons” that reacts to a meteorite hitting the town by calling for the observatory to be burned down.

This is only one of many non-financial reference points used to make a tough read more accessible. The Three Mile Island nuclear disaster, the medieval origins of primogeniture and evolutionary biology are all enlisted to shed light on different aspects of financial risk. Instead of trying to grapple with every single one of the risks around them, investors should emulate the lowly cockroach, which has survived for millions of years thanks to a defence mechanism that is rudimentary but good at dealing with unanticipated threats. A more unlikely risk-management role-model is hard to imagine.

A liberal sprinkling of juicy stories from the trading floor, many involving Mr Bookstaber himself, also helps to keep the reader engaged. He is at his best when evoking the greed, fear and outright paranoia of the first great age of proprietary-trading desks (which bet big with their bank's own capital). So sure was Salomon that rivals were out to nab its trading secrets that it had the curtains of its boardroom treated to shield it from electronic eavesdroppers. Goldman Sachs, take note.

Ultimately, however, Mr Bookstaber is better at describing problems than developing prescriptions. In a hurried conclusion, he suggests that salvation lies in curbing bets made with borrowed money (“leverage”) and making financial products less convoluted. But how could this be done without snuffing

out the innovation that is the lifeblood of finance?

Moreover, his assertion that markets have become more fragile is unproven. Banks are in rude health, by and large. Most have improved risk management greatly since LTCM. The latest hedge-fund crisis—Amaranth's demise after making disastrous bets on natural gas—barely troubled the markets.

A sharp tightening of credit, expected after years of easy money, may yet wreak havoc. But if it can be weathered with relatively few casualties, it might just as easily end up demonstrating that the innovations of recent years have made the financial system more, not less, robust. Mr Bookstaber's demon may yet turn out to be an angel in disguise.

A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation.
By Richard Bookstaber.
Wiley; 276 pages; $27.95 and £18.99

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J.R.R. Tolkien

The master's last words

Apr 19th 2007
From The Economist print edition

THIS week J.R.R. Tolkien reaches us from beyond the grave. Three decades after his death, his son, Christopher Tolkien, has compiled “The Children of Hurin”, gathering his material from subplots in three of Tolkien's books (including “The Silmarillion” which was also published posthumously) plus notes that the great man jotted down throughout his career.

All the standard fare is here. There is a Dark Lord, a doomed hero and a dragon. Turin and Nienor, Lord Hurin's children, are born at a time when Men and Elves in Middle Earth are united against Morgoth (a deity gone bad). Hurin is captured in battle and through his defiance of the Dark Lord is cursed and forced to witness the downfall of his family. The story centres on Turin's inescapable misfortunes as fate drives him to disaster, together with his mother and sister.

This story, based as always on ancient European mythology, is told without poetry, let alone comedy. As the exhaustive introduction and preface make clear, it is all unadorned tragedy. Though the book is quite short, the detail and description are dense. Plot is almost an aside since Turin is destined for awful things from the outset. But the language is authentically Tolkien's.

The Children of Hurin
By J.R.R. Tolkien. Edited by Christopher Tolkien

Houghton Mifflin; 320 pages; $26.
HarperCollins; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Devoted fans of Tolkien's books, and of the film trilogy made from “The Lord of the Rings”, queued for this final volume when it appeared in the shops this week. They will, no doubt, rejoice in a fresh perspective on a well-known chronicle. But those uneducated in Middle Earth's rich history and languages may find themselves restlessly page-flipping between the main story and the family trees, glossaries and appendices.

“The Children of Hurin”, unlike Tolkien's better-known stories, does not set out to be a vehicle for his political and philosophical ideals. Its aim is to tell a good story, and it does so, without wandering into its wider implications. It is well crafted: Christopher Tolkien has skilfully pieced the fragments together to form a “continuous narrative without gaps or interruptions”. The question is whether, given the vast extent of Tolkien's published work, this new spinning of fragments was really necessary.

The Children of Hurin.
By J.R.R. Tolkien. Edited by Christopher Tolkien.
Houghton Mifflin; 320 pages; $26.
HarperCollins; £18.99

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Oil in Africa

The black curse

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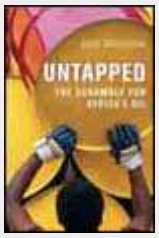
From The Economist print edition

LIKE the cars that might one day make the Western world a bit less reliant on crude oil, “Untapped” is a hybrid; part travelogue, part analysis and part lament. It is also well timed. Energy security has become an obsession for the rich world. And some, especially in America, have argued that the supposedly limitless supply of African crude is the key to reducing the West's over-dependence on politically risky Middle Eastern supplies. This book examines the consequent boom in oil production and exploration that is currently sweeping across Africa, and the effects that this may have on the continent. None of it makes for pretty reading.

Untapped: The Scramble for Africa's Oil
By John Ghazvinian



Harcourt; 336 pages; $25

Buy it at
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The author begins his travels in Nigeria, where Royal Dutch Shell started off Africa's relationship with the modern oil industry by striking black gold in the Delta region in 1958. But for all the billions of dollars that Nigeria's oil has fetched on the world markets since then, the country itself has virtually collapsed. It may be the seventh-largest producer of crude in the world, but Nigeria remains one of the poorest as well—an original example of “resource curse”. Nearby Gabon followed soon after.

The question Mr Ghazvinian sets is whether the countries now leading the oil boom, such as Angola, South Sudan and Equatorial Guinea, can expect much better. His answer is a resounding no. In the past, all that oil wealth has done for Africa is to entrench chronically corrupt politicians who squander the money while throwing their impoverished citizens a few prestige white-elephant projects to keep up the pretence of “development”. This pattern, he argues, is unlikely to change.

Travelling to Angola, for example, the author finds few of the political, legal and institutional frameworks that might prevent that country from becoming another Nigeria. The situation is even worse in Equatorial Guinea, perhaps Africa's most venal regime, which is kept afloat on a slick of Western petrodollars.

His findings may not be surprising, but Mr Ghazvinian adds value by detailing America's deepening involvement in Africa at a time when eyes are on what China is doing there. In many cases it is America's oil majors that are making the running, with its politicians and diplomats, worrying about energy insecurity, rarely far behind. America is getting into bed with some very nasty, or at the least undemocratic, regimes at the same time as it preaches human-rights to Sudan's admittedly awful president, Omar al-Bashir.

Untapped: The Scramble for Africa's Oil.
By John Ghazvinian.
Harcourt; 336 pages; $25

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New fiction

Foreigners with funny accents

Apr 19th 2007
From The Economist print edition

MARINA LEWYCKA'S “A Short History of Tractors in Ukrainian”, a word-of-mouth hit which was translated into 29 languages, was hailed as one of the funniest novels of 2005. In “Two Caravans”, her second novel, Ms Lewycka returns to her rich literary sources: the innocence and oddities of immigrants and immigrant life in Britain and the ghastly creatures who get rich preying on vulnerable illegals before they have even crossed the English Channel.

The book opens in the strawberry fields of Kent. Two caravan loads of workers—a miner's son, a Bob Dylan fan, a voluptuous gang mistress and her religious niece, two Chinese girls and a round-eyed African—are being paid a pittance to collect strawberries for the smug middle classes who can afford to turn a blind eye to how their out-of-season fruit and veg actually gets to their white-linened tables.

Ms Lewycka gives each of the characters their moment in the sun by structuring the book in short sections written in multiple voices. Emmanuel, the African, pens plaintive letters full of unintentional *doubles entendres* to his lost sister. A dog who appears midway through the story expresses his literary thoughts in long, unpunctuated sentences written in large capital letters.

Two Caravans
By Marina Lewycka

To be published in America as "Strawberry Fields" by Penguin Press in August Penguin/Fig Tree; 310 pages; £16.99.

Buy it at
Amazon.com
Amazon.co.uk

The immigrants' tales add a layer of authenticity but make for a piecemeal offering. Some scenes are amusing, though this reviewer found herself skipping through the dog-speak altogether. Then there is the problem of caricature, always a danger in literature about ignorant incomers with funny accents.

But to abandon “Two Caravans” for being too full of second-novel flaws would be a mistake. Not least because the reader would miss the chickens. About halfway through the book the hapless caravanistas are enticed into working in a factory chicken farm where the span of life, from “hatchin' to catchin'”, lasts just five weeks. And what horrible weeks they are—and not just for the chickens.

In 35 pages Ms Lewycka has written one of the great comic scenes of modern times, one that will make you look into your soul every time you push your trolley down the poultry aisle. Cherish the chickens, even if you feel inclined to chuck most of the rest away.

Two Caravans.
By Marina Lewycka.
Penguin/Fig Tree; 310 pages; £16.99.
To be published in America as “Strawberry Fields” by Penguin Press in August

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Kingsley Amis

Booze and birds

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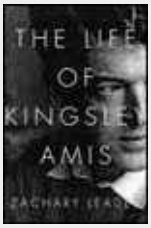
From The Economist print edition

“WHAT I want”, wrote Kingsley Amis in 1954, a few weeks before his debut novel “Lucky Jim” made him famous, “is a chance to decide, from personal experience, that a life of cocktail parties, cars, weekending at rich houses, wine, night-clubs and jazz won't bring happiness. I want to prove that money isn't everything, to learn that pleasure cloys.”

According to Zachary Leader's thumping great breeze-block of a biography (published in Britain last November but only this month in America), Amis went on to investigate these matters pretty thoroughly. As the accounts of his drinking and womanising pile up, and as he gradually turns into precisely the kind of pompous old buffoon he so effectively skewered in his own early novels, it is difficult not to conclude that, two marriages down, bloated, boorish and borderline alcoholic, the pleasure had well and truly cloyed.

Amis comes across as an awful and fascinating character—vicious, hilarious, pathetic. Almost every page of Mr Leader's book is lit up by some priceless Amis gag or killer put-down. Yet perhaps its most memorable image is of the author in middle age, completely blotto after dinner, howling himself to sleep, insensible, inarticulate and inconsolable, while his wife holds his hand and offers a cushion to muffle his screams.

The Life of Kingsley Amis
By Zachary Leader



Pantheon; 1008 pages; $39.95.
Jonathan Cape; £25

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Mr Leader's style and approach are unfussy and effective. His central claim, that Amis “was not only the finest British comic novelist of the second half of the 20th century but a dominant force in the writing of the age,” stands up well enough. He draws judiciously on a huge amount of material, both by and about Amis. He proceeds more or less chronologically, following Amis from his suburban London childhood to Oxford, a series of academic posts in Britain and America, and then back to London again. All the major novels get a good going over; so do the poems, journalism and letters (especially the wonderful ones between Amis and his friend of 40-odd years, Philip Larkin).

A great deal of the book necessarily concerns booze and birds. At Swansea University, where Amis got his first teaching job, he “seems to have made a pass at all attractive females, students and wives included.” After he hit the jackpot with “Lucky Jim” his strike rate improved considerably. But his chronic infidelity would wreck both his marriages.

Amis's first wife, Hilly Bardwell, who did her best to put up with it for 15 years, managed to get off a parting shot during a trip abroad when she printed the words “ONE FAT ENGLISHMAN. I FUCK ANYTHING” in lipstick letters on his bare back. His second wife, Elizabeth Jane Howard, a well-known novelist herself, left him in 1980. She had come to realise, as Mr Leader puts it, “not only that Amis didn't love her but that he didn't like her.”

The field of Kingsley Amis studies is, if not yet overcrowded, at least getting cosy. Mr Leader's is the fourth full-length biography of Amis to appear since his death in 1995. Exhaustively researched, it is likely to be definitive. The only drawback is its length. You could read “Lucky Jim”, “Take a Girl Like You” and “The Old Devils”, arguably Amis's three best books, along with a decent chunk of the Amis-Larkin correspondence, in less than the time it takes to get through this one.

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New horror film

Scary

Apr 19th 2007 | LOS ANGELES
From The Economist print edition

A flawless horror-thriller. Watch it if you dare

THE story of some films can be told in two sentences. In “Vacancy”, a married couple check into a rundown motel in the middle of nowhere, where the television in their room plays nothing but slasher movies (films in which people are ghoulishly killed). They quickly realise that the murders portrayed in these cheap videos are real, and that they were all filmed in the room they now occupy.

“Vacancy” stands out from the current flood of horror movies because of the talent of its director, Nimrod Antal. Raised in California but trained at the Hungarian Academy of Drama and Film, Mr Antal won the Prix de la Jeunesse at Cannes in 2004 for his first feature film, “Kontroll”, made in the Budapest subway system. “Vacancy”, which is his first English-language film, is like the work of a young Roman Polanski.

Mark Smith's script suggests all sorts of self-referential meanings. The couple (played by Luke Wilson and Kate Beckinsale) are being filmed by hidden video cameras that permit the motel manager (a nervous nut played by Frank Whaley) to view them on multiple screens, as if he were directing a TV reality show.

Another director would have plastered that metaphor all over the film, never missing a chance to point a finger at the audience as complacent consumers of violent imagery. But Mr Antal has learned the lessons of east European cinematic realism, a school that encompasses stylists as different as Mr Polanski, Andrzej Wajda, Milos Forman and Krzysztof Kieslowski. What makes “Vacancy” thoroughly terrifying is our growing realisation that this preposterous story could actually be happening.

We see very little of the snuff movies (films in which actors do not pretend to be killed but actually are) playing on the various television screens—but enough to understand what will happen to our couple if they don't escape. These half-glimpsed atrocities are shot like surveillance videos. They have little in common with Mr Antal's stylish main film, in which faces, reflected in mirrors or caught in slivers of light, appear and disappear on a darkened screen.

With no pointed cutaways to the manager's hidden cameras to defuse the tension, “Vacancy” is a flawless non-stop thriller. But perhaps the scariest moment is a quiet interlude halfway through when a truck pulls up in front of the isolated motel. Is the driver friend or foe? Neither. He is just picking up a load of tapes for distribution on some underground circuit. Not only has the manager's trap for unsuspecting couples been giving him horrid pleasure; it has also apparently been turning a profit.

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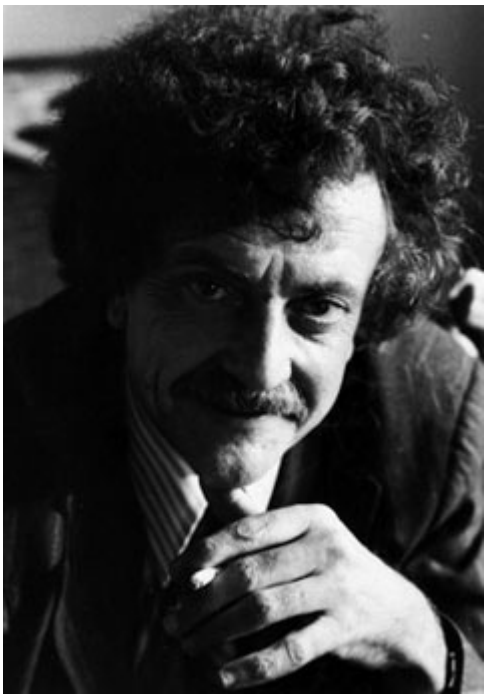
Kurt Vonnegut

Apr 19th 2007
From The Economist print edition

Kurt Vonnegut junior, novelist, died on April 11th, aged 84

AP



ON FEBRUARY 13th 1945, Kurt Vonnegut sat in an underground meat locker in Dresden, Germany, listening to the city above him being destroyed. He and the other prisoners of war, captured as they wandered behind enemy lines, had been consigned to make vitamin syrup for pregnant mothers, trying to ignore the ominous "Schlachthof-Funf" (Slaughterhouse-Five) daubed on the door.

Now they simply listened. One prisoner made a joke. "Nobody laughed," Mr Vonnegut wrote later, "but we were all glad he said it. At least we were still alive! He proved it." Sitting in a slaughterhouse as the sky rained fire, his life proved by a joke, Mr Vonnegut found the path that would define him for the rest of his life.

His novels questioned the nature of existence and the purpose of life, often with blackly comic humour and fantastical political satire. With his unkempt hair and drooping moustache, he looked much like that other great American pessimist, Mark Twain. Life, he declared frequently, was "no way to treat an animal".

Although Mr Vonnegut's experience in Dresden shaped his world view, it took him 24 years and seven novels before he wrote the "famous Dresden book" he had promised. "Slaughterhouse-Five", published in 1969 against the backdrop of racial unrest and the Vietnam war, propelled him from science-fiction writer (a label he abhorred) to literary icon. The novel caught the brooding, anti-establishment mood of the times and became an instant bestseller. Its signature hook, "So it goes", which followed every death, was adopted as a mantra by opponents of the war.

The main character, Billy Pilgrim, is kidnapped by small green aliens called Tralfamadorians, who teach him the true nature of time: that all moments in the past, present and future exist always, and that death is just an unpleasant moment, neither an end nor a beginning. When Billy is shot bringing this message to the world, he does not mind. He knew he would die like this; he has seen it all before. "Farewell, hello, farewell, hello" are his last words.

Mr Vonnegut's was one of the defining voices of post-war America. Yet it was also ambiguous. Early works such as "Player Piano" (1952) and "The Sirens of Titan" (1959) were technological reveries, even though he was a self-confessed Luddite who preferred his typewriter to a computer. He became honorary president of the American Humanist Association, yet still looked to God for answers. He admitted once that "The beliefs I have to defend are so soft and complicated, actually, and, when vivisected, turn into bowls of undifferentiated mush. I am a pacifist, I am an anarchist, I am a planetary citizen, and so on."

He was on firmer ground, it seemed, with his fiction. He created races of alien creatures, such as the Mercurian Harmoniums, a species of paper-thin extra-terrestrials who lived on sound. Bokononism, his invented religion, was a creed of "bittersweet lies". He imagined anti-ageing drinks and floating furniture, while Ice-Nine—the final form of water which freezes at room temperature—destroyed the world in seven seconds flat. So it goes.

The empty birdcage

His background gave no hint of the fantasising to come: an American father, a German mother, boyhood in Indianapolis, science at university. In later years he ruefully advised his students: "If you really want

to disappoint your parents, and don't have the nerve to be gay, go into the arts." During the Depression his mother, who had bouts of mental illness, turned to writing short stories to generate income; when this failed, she committed suicide.

His own writing career grew slowly, once army service was done. He was a crime reporter for the Chicago City News Bureau, a PR writer for General Electric, even a Saab car salesman. He also studied for a master's in anthropology at the University of Chicago. His thesis was rejected, but his novel "Cat's Cradle" (1963) was accepted instead, almost 25 years late.

Mr Vonnegut populated his fiction with alter egos: the author Philboyd Studge, the Pontiac salesman Dwayne Hoover, the science-fiction writer Kilgore Trout, the soldier Billy Pilgrim. In "Breakfast of Champions" (1973), the author has a conversation with himself:

> "This is a very bad book you're writing," I said to myself.
> "I know," I said.
> "You're afraid you'll kill yourself the way your mother did," I said.
> "I know," I said.

Critics accused him of being rambling, repetitious, sometimes incoherent and lazily autobiographical. Mr Vonnegut was defiant, though his fear that the critics were out to "squash him like a gnat" contributed to his suicide attempt in 1984. He vowed several times he would never write another novel: "Timequake", published in 1997, proved to be his last.

Like Billy Pilgrim, he had seen his own death many times, and did not fear it. He joked he was going to sue the manufacturers of Pall Mall cigarettes, the brand he smoked heavily for years, for failing to kill him as they promised on the packs. Since his death, a simple black-and-white drawing has appeared on his website. It shows an empty birdcage, the door wide open. Farewell Mr Vonnegut, and hello.

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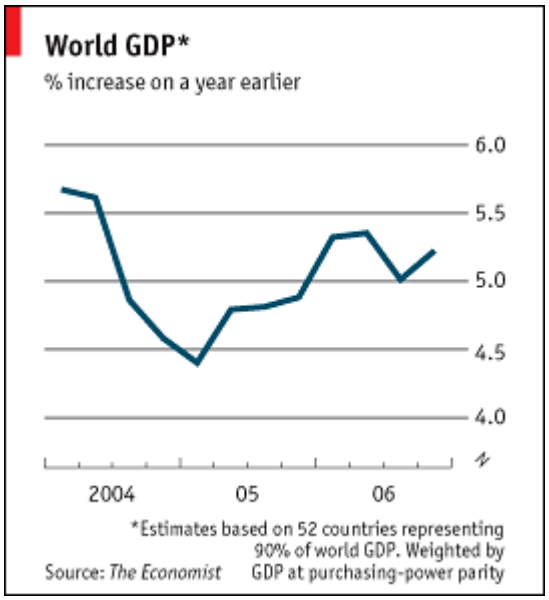
Overview

Apr 19th 2007
From The Economist print edition

China's rate of GDP growth surged to 11.1% in the year to the first quarter, from 10.4% in the year to the fourth quarter. Consumer prices rose by 3.3% in March, faster than the official target and the most in two years.

Consumer-price inflation in **Britain** rose by 3.1% in the year to March, up from 2.8% in February. The Bank of England had to explain to the chancellor of the exchequer why its target had been exceeded by more than a percentage point.

America's annual rate of core consumer-price inflation (which excludes food and energy) fell in March, from 2.7% to 2.5%. The headline rate rose from 2.4% to 2.8%. Lower oil imports and oil-import prices helped trim America's trade deficit in goods and services by $500m to $58.4 billion in February.



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Output, prices and jobs

Apr 19th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+3.1 Q4	+2.5	+2.3	+2.7	+2.3 Mar	+2.8 Mar	+3.4	+2.1	4.4 Mar
Japan	+2.3 Q4	+5.5	+2.3	+2.3	+3.1 Feb	–0.2 Feb	–0.1	+0.1	4.0 Feb
China	+11.1 Q1	na	+9.8	+9.7	+17.6 Mar	+3.3 Mar	+0.8	+2.7	9.8 2006
Britain	+3.0 Q4	+2.7	+2.6	+2.5	+0.3 Feb	+3.1 Mar**	+1.8	+2.1	5.5 Feb††
Canada	+2.3 Q4	+1.4	+2.4	+2.7	–2.3 Jan	+2.0 Feb	+2.2	+1.7	6.1 Mar
Euro area	+3.3 Q4	+3.6	+2.3	+2.1	+4.1 Feb	+1.9 Mar	+2.2	+1.8	7.3 Feb
Austria	+3.3 Q4	+3.3	+2.8	+2.6	+8.5 Jan	+1.8 Mar	+1.0	+1.6	4.4 Mar
Belgium	+2.9 Q4	+2.4	+2.3	+2.2	+3.4 Feb	+1.8 Mar	+1.7	+1.8	11.2 Mar‡‡
France	+2.5 Q4	+2.9	+2.1	+2.1	+2.6 Feb	+1.2 Mar	+1.5	+1.4	8.4 Feb
Germany	+3.7 Q4	+3.5	+2.2	+2.1	+7.6 Feb	+1.9 Mar	+1.8	+1.7	9.2 Mar
Greece	+4.3 Q4	na	+3.2§	+3.1§	+2.3 Feb	+2.6 Mar	+3.3	+2.8§	8.6 Jan
Italy	+2.8 Q4	+4.7	+1.9	+1.6	–0.7 Feb	+1.7 Mar	+2.1	+1.8	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.6	+2.4	+6.1 Feb	+1.8 Mar	+1.0	+1.4	5.0 Feb††
Spain	+4.0 Q4	+4.8	+3.4	+2.8	+3.5 Feb	+2.5 Mar	+3.9	+2.5	8.6 Mar
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+15.4 Feb	+1.9 Mar	+2.8	+2.4	7.3 Mar
Denmark	+2.9 Q4	+1.5	+2.3	+2.3	+0.7 Feb	+2.0 Mar	+1.9	+1.8	3.9 Feb
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.7 Feb	+9.0 Mar	+2.3	+6.6	7.4 Feb††
Norway	+2.7 Q4	+2.0	+2.8§	+2.5§	–1.6 Feb	+1.1 Mar	+2.4	+1.6§	2.7 Feb††
Poland	+6.4 Q4	na	+5.4	+5.0	+12.9 Feb	+2.5 Mar	+0.4	+2.0	14.9 Feb‡‡
Russia	+7.9 Q1	na	+7.0	+6.3	+7.9 Mar	+7.1 Mar	+10.6	+7.3	7.3 Feb‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.0	+6.8 Feb	+1.9 Mar	+0.7	+1.6	4.8 Feb‡‡
Switzerland	+2.2 Q4	+1.8	+2.0	+2.0	+8.9 Q4	+0.2 Mar	+1.0	+0.7	3.0 Mar‡‡
Turkey	+5.2 Q4	na	+4.3	+5.3	+7.1 Feb	+10.9 Mar	+8.2	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+2.9	+3.2	+3.7 Q4	+3.3 Q4	+2.8	+2.7	4.5 Mar
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+0.8 Feb	+1.2	+2.5	4.3 Feb††
India	+8.6 Q4	na	+8.0	+7.8	+11.0 Feb	+7.6 Feb	+4.9	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	+23.1 Jan	+6.5 Mar	+15.7	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	–0.2 Feb	+1.5 Mar	+4.8	+2.5	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.0§	+6.8 Sep	+7.7 Mar	+6.9	+6.8§	na
Singapore	+6.0 Q1	+7.2	+5.4	+5.4	+0.1 Feb	+0.6 Feb	+1.2	+1.4	2.6 Q4
South Korea	+4.0 Q4	+3.4	+4.4	+4.7	–0.4 Feb	+2.2 Mar	+2.0	+2.3	3.2 Mar
Taiwan	+4.0 Q4	na	+4.3	+4.6	–2.8 Feb	+0.8 Mar	+0.4	+1.4	3.9 Feb
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+5.5 Feb	+2.0 Mar	+5.7	+2.9	1.6 Jan
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+2.4 Feb	+9.1 Mar	+11.1	+9.8	8.7 Q4‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+3.0 Feb	+3.0 Mar	+5.3	+3.7	9.9 Feb‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+4.6 Feb	+2.6 Mar	+4.0	+2.6	6.4 Feb††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+13.7 Jan	+5.8 Mar	+4.1	+4.2	13.8 Jan‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	nil Feb	+4.2 Mar	+3.4	+3.8	4.0 Feb‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+6.7 Jan	+18.5 Mar	+12.1	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.8 Mar	+3.7	+9.9	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+6.9 Jan	–0.9 Mar	+3.6	+1.4	7.7 Q4
Saudi Arabia	+4.2 2006§	na	+3.9§	+5.0§	na	+3.0 Jan	+1.5	+2.6§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+7.1 Feb	+5.7 Feb	+3.9	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.4§	+8.4 Feb	+5.7 Mar	+4.0	+4.3§	4.7 Feb
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–1.3 Feb	+2.6 Mar	+0.9	+1.9§	7.0 Feb
Iceland	+2.5 Q4	+7.8	+0.4§	+2.6§	na	+5.3 Apr	+5.5	+4.9§	1.3 Mar‡‡
Ireland	+5.0 Q4	+0.1	+5.4§	+3.6§	+22.3 Feb	+5.1 Mar	+3.5	+3.4§	4.2 Mar
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+2.0 Feb	+8.5 Mar	+6.5	+6.0§	6.1 Jan
Lithuania	+6.9 Q4	+7.4	+6.5§	+6.4§	na	+4.6 Mar	+3.1	+1.8§	6.2 Feb
Luxembourg	+5.0 Q4	+7.0	+4.6§	+4.1§	+0.4 Jan	+2.1 Mar	+3.0	+3.0§	4.8 Feb‡‡
New Zealand	+2.9 Q4	+5.0	+2.6§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+3.0§	3.7 Q4
Peru	+7.4 Feb	na	+6.1	+5.5	+11.5 Jan	+0.2 Mar	+2.5	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	+2.0 Jan	+2.2 Mar	+7.6	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.6§	+2.1§	+4.5 Feb	+2.3 Mar	+3.9	+2.2	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+7.0§	+5.4§	+15.5 Feb	+2.7 Mar	+4.5	+2.5	11.0 Jan
Slovenia	+5.5 Q4	na	+4.2§	+4.0§	+9.3 Feb	+2.3 Mar	+1.9	+2.3	8.3 Feb‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.8% in Mar. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Apr 19th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Apr 10th	Apr 17th*	% change on one month	% change on one year
Dollar index				
All items	201.3	200.3	+2.9	+20.2
Food	157.3	157.8	−0.9	+16.8
Industrials				
All	258.1	255.3	+6.2	+23.1
Nfa†	158.4	160.5	+3.8	+7.6
Metals	312.4	307.1	+6.9	+28.4
Sterling index				
All items	154.7	151.5	+0.5	+6.6
Euro index				
All items	138.4	136.5	+0.8	+8.8
Gold				
$ per oz	675.50	688.05	+4.3	+11.7
West Texas Intermediate				
$ per barrel	61.77	63.05	+10.1	−11.5

*Provisional †Non-food agriculturals.

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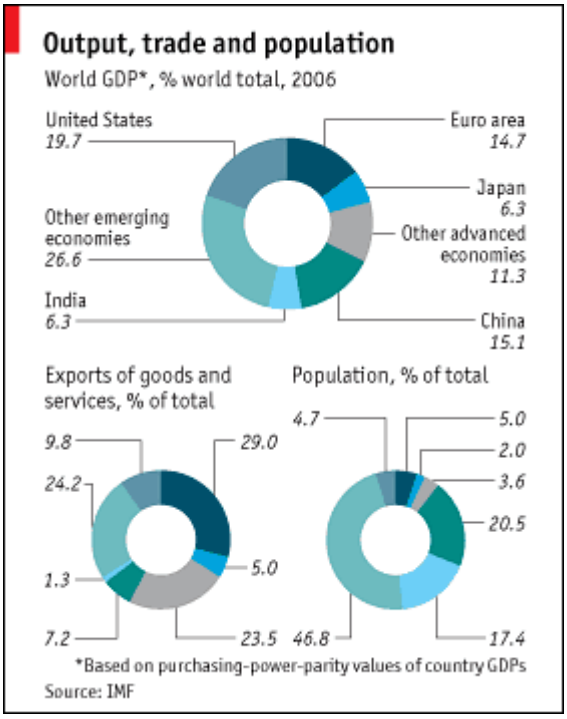
Output, trade and population

Apr 19th 2007
From The Economist print edition

Last year, according to the IMF, “other emerging-market and developing countries” accounted for 32.7% of world exports. Ten years before, the share of this group (which does not include Hong Kong, Singapore, South Korea or Taiwan) was only 17.3%. America's slice, 13% in 1996, was just below 10% last year. At purchasing-power parity (which equalises the price of a common basket of goods in different countries), emerging and developing economies' share of global GDP rose from 39.2% to 48% in the same ten-year period. China's share has gone up from 11.1% to 15.1% and India's from 4.1% to 6.3%. America accounted for 19.7% last year, a percentage point less than in 1996.



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Trade, exchange rates, budget balances and interest rates

Apr 19th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Apr 18th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	–825.2 Feb	–856.7 Q4	–6.1	–	–	–1.6	5.19	4.65
Japan	+84.0 Feb	+173.9 Feb	+4.1	118	118	–4.7	0.57	1.70
China	+200.9 Mar	+160.8 2005	+7.6	7.72	8.01	–1.6	2.90	3.42
Britain	–154.8 Feb	–80.1 Q4	–3.0	0.50	0.56	–2.7	5.63	5.03
Canada	+46.3 Feb	+21.4 Q4	+1.0	1.13	1.14	0.8	4.16	4.19
Euro area	–6.2 Feb	–17.3 Jan	–0.1	0.74	0.81	–1.0	3.98	na
Austria	+0.4 Jan	+11.6 Q3	+1.3	0.74	0.81	–0.9	3.98	4.20
Belgium	+17.0 Jan	+7.8 Dec	+2.7	0.74	0.81	0.4	4.03	4.21
France	–34.4 Feb	–30.5 Feb	–1.3	0.74	0.81	–2.7	3.98	4.19
Germany	+213.0 Feb	+153.5 Feb	+4.7	0.74	0.81	–1.4	3.98	4.15
Greece	–45.3 Jan	–30.5 Jan	–7.8†	0.74	0.81	–2.6	3.98	4.38
Italy	–25.2 Feb	–46.9 Jan	–1.9	0.74	0.81	–2.6	3.98	4.37
Netherlands	+42.4 Feb	+59.7 Q4	+8.3	0.74	0.81	0.6	3.98	4.18
Spain	–114.6 Jan	–109.8 Jan	–8.8	0.74	0.81	1.7	3.98	4.20
Czech Republic	+2.4 Feb	–6.1 Q4	–3.3	20.6	23.1	–4.2	2.57	3.88
Denmark	+6.3 Feb	+5.8 Feb	+2.7	5.49	6.05	3.1	4.17	4.17
Hungary	–2.4 Feb	–6.5 Q4	–5.0	181	216	–6.7	7.85	6.70
Norway	+54.7 Mar	+56.1 Q4	+15.3†	5.97	6.33	18.7	4.61	4.73
Poland	–5.3 Feb	–8.2 Feb	–2.5	2.80	3.17	–2.6	4.32	5.32
Russia	+134.1 Feb	+95.6 Q4	+6.0	25.8	27.5	5.5	10.50	6.24
Sweden	+20.3 Feb	+28.4 Q4	+6.6	6.78	7.54	2.9	3.26	4.03
Switzerland	+10.3 Feb	+106.1 Q4	+15.3	1.21	1.27	1.2	2.31	2.72
Turkey	–53.0 Feb	–32.4 Feb	–7.0	1.35	1.33	–1.6	19.03	18.88
Australia	–9.9 Feb	–40.9 Q4	–5.2	1.20	1.34	1.3	6.53	5.94
Hong Kong	–16.9 Feb	+20.2 Q4	+9.4	7.81	7.75	1.9	4.30	4.13
India	–56.1 Feb	–10.0 Q4	–2.3	42.0	45.0	–4.3	7.33	8.33
Indonesia	+40.1 Feb	+9.6 Q4	+1.2	9,075	8,905	–1.1	8.98	6.29§
Malaysia	+29.3 Feb	+22.2 Q3	+12.9	3.43	3.66	–3.3	3.63	5.18§
Pakistan	–13.4 Mar	–6.5 Q4	–5.4†	60.7	60.0	–4.6	9.92	6.59§
Singapore	+34.4 Mar	+36.3 Q4	+23.5	1.51	1.60	0.3	2.56	2.63
South Korea	+17.7 Mar	+6.8 Feb	+0.3	929	946	0.4	4.95	5.02
Taiwan	+14.1 Mar	+25.2 Q4	+5.9	33.2	32.4	–2.3	1.86	2.15
Thailand	+3.4 Jan	+4.6 Jan	+1.9	34.8	37.8	–1.4	4.18	3.90
Argentina	+12.0 Feb	+8.1 Q4	+2.4	3.08	3.07	1.5	9.50	na
Brazil	+45.5 Mar	+14.1 Feb	+0.7	2.04	2.12	–2.2	12.68	6.16§
Chile	+23.8 Mar	+5.3 Q4	+0.8	529	514	4.3	5.04	5.21§
Colombia	–0.5 Jan	–2.9 Q4	–2.3	2,148	2,345	–1.5	7.39	5.95§
Mexico	–9.0 Feb	–1.5 Q4	–1.2	11.0	11.0	–0.2	7.00	7.60
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,239	2,515	–3.8	10.13	6.55§
Egypt	–12.6 Q4	+2.7 Q4	+1.3	5.69	5.75	–7.6	8.04	5.34§
Israel	–7.7 Feb	+6.8 Q4	+3.4	4.07	4.55	–2.8	4.02	4.62
Saudi Arabia	+165.7 2006	+90.0 2005	+18.3†	3.75	3.75	13.7	5.06	na
South Africa	–9.5 Feb	–16.3 Q4	–5.9	7.08	6.00	0.5	9.15	7.72
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	–3.5 Jan	–2.4 Jan	–13.5†	11.5	12.7	1.6	4.41	na
Finland	+11.6 Jan	+12.7 Feb	+5.6†	0.74	0.81	2.3	3.95	4.19
Iceland	–1.9 Mar	–4.4 Q4	–16.2†	65.1	78.5	2.1	13.77	na
Ireland	+35.3 Jan	–7.2 Q4	–4.3†	0.74	0.81	1.0	3.98	4.17
Latvia	–5.3 Feb	–4.6 Jan	–19.5†	0.52	0.56	–1.2	8.07	na
Lithuania	–5.7 Feb	–3.6 Feb	–10.3†	2.54	2.80	–0.5	4.49	na
Luxembourg	–5.2 Jan	+4.4 Q4	na	0.74	0.81	–0.8	3.98	na
New Zealand	–3.8 Feb	+6.2 Q4	–9.1†	1.35	1.58	3.5	6.80	6.22
Peru	+8.7 Feb	+2.5 Q4	+1.0	3.18	3.31	0.1	4.50	na
Philippines	–3.7 Jan	+5.0 Dec	+3.2	47.6	51.4	–0.7	5.56	na
Portugal	–23.3 Dec	–18.1 Jan	–7.7†	0.74	0.81	–3.7	3.98	4.29
Slovakia	–2.4 Feb	–4.6 Dec	–5.5†	24.6	30.3	–3.0	3.73	4.20
Slovenia	–2.1 Feb	–1.3 Jan	–2.3†	0.74	0.81	–1.2	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Apr 19th 2007
From The Economist print edition

Markets

	Index Apr 18th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,803.8	+2.6	+2.7	+2.7
United States (S&P 500)	1,472.5	+2.3	+3.8	+3.8
United States (NAScomp)	2,510.5	+2.1	+3.9	+3.9
Japan (Nikkei 225)	17,667.3	nil	+2.6	+3.4
Japan (Topix)	1,730.7	−0.5	+3.0	+3.8
China (SSEA)	3,796.7	+3.3	+34.9	+36.3
China (SSEB, $ terms)	201.1	+7.0	+52.9	+54.6
Britain (FTSE 100)	6,449.4	+0.6	+3.7	+6.2
Canada (S&P TSX)	13,712.0	+2.3	+6.2	+9.6
Euro area (FTSE Euro 100)	1,365.4	+1.2	+6.8	+10.0
Euro area (DJ STOXX 50)	4,358.9	+1.5	+5.8	+9.0
Austria (ATX)	4,662.9	−1.5	+4.5	+7.6
Belgium (Bel 20)	4,576.4	−0.2	+4.3	+7.4
France (CAC 40)	5,836.0	+1.5	+5.3	+8.5
Germany (DAX)*	7,282.3	+1.8	+10.4	+13.7
Greece (Athex Comp)	4,805.4	+0.5	+9.4	+12.7
Italy (S&P/MIB)	43,286.0	+1.1	+4.5	+7.6
Netherlands (AEX)	531.2	+1.8	+7.2	+10.5
Spain (Madrid SE)	1,648.5	−0.8	+6.0	+9.2
Czech Republic (PX)	1,794.4	+0.5	+12.9	+14.4
Denmark (OMXCB)	461.8	+2.0	+8.9	+12.2
Hungary (BUX)	25,228.5	+3.5	+1.5	+6.7
Norway (OSEAX)	527.3	−0.1	+5.0	+9.5
Poland (WIG)	59,682.0	+0.8	+18.4	+22.6
Russia (RTS, $ terms)	1,965.1	−1.0	nil	+2.2
Sweden (Aff.Gen)	404.8	+1.4	+10.8	+11.8
Switzerland (SMI)	9,278.5	+1.6	+5.6	+7.0
Turkey (ISE)	45,634.0	−1.0	+16.7	+22.2
Australia (All Ord.)	6,215.0	+1.3	+10.1	+17.1
Hong Kong (Hang Seng)	20,777.1	+1.6	+4.1	+3.6
India (BSE)	13,672.2	+3.7	−0.8	+4.5
Indonesia (JSX)	1,959.7	+1.5	+8.5	+7.6
Malaysia (KLSE)	1,328.6	+1.7	+21.2	+24.7
Pakistan (KSE)	12,189.3	+2.5	+21.4	+21.8
Singapore (STI)	3,400.4	−0.6	+13.9	+15.5
South Korea (KOSPI)	1,534.6	+1.4	+7.0	+7.1
Taiwan (TWI)	8,003.3	−1.0	+2.3	+0.5
Thailand (SET)	692.3	−0.4	+1.8	+5.9
Argentina (MERV)	2,212.0	+2.2	+5.8	+5.4
Brazil (BVSP)	48,709.0	+3.8	+9.5	+14.8
Chile (IGPA)	14,014.7	+2.0	+13.3	+14.0
Colombia (IGBC)	10,747.5	−0.2	−3.7	+0.4
Mexico (IPC)	29,559.5	+1.0	+11.8	+10.1
Venezuela (IBC)	49,551.2	+2.6	−5.1	−2.1
Egypt (Hermes)	65,735.8	+0.3	+7.3	+7.7
Israel (TA-100)	1,043.3	+1.2	+13.2	+17.4
Saudi Arabia (Tadawul)	7,501.0	−3.7	−5.4	−5.5
South Africa (JSE AS)	28,148.5	+1.8	+13.0	+12.6
Europe (FTSEurofirst 300)	1,564.8	+1.1	+5.5	+8.7
World, dev'd (MSCI)	1,576.0	+2.1	+6.2	+6.2
Emerging markets (MSCI)	975.7	+1.3	+6.9	+6.9
World, all (MSCI)	390.9	+2.0	+6.3	+6.3
World bonds (Citigroup)	671.7	+0.9	+2.0	+2.0
EMBI+ (JPMorgan)	420.1	+0.4	+3.1	+3.1
Hedge funds (HFRX)	1,321.0	+1.3	+3.5	+3.5
Volatility, US (VIX)	12.4	13.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	18.8	−6.6	−12.3	−9.6
CDSs, N Am (CDX)†	31.0	−4.6	+5.5	+5.5
Carbon trading (EU ETS) €	0.54	−31.6	−91.4	−91.2

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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Poverty

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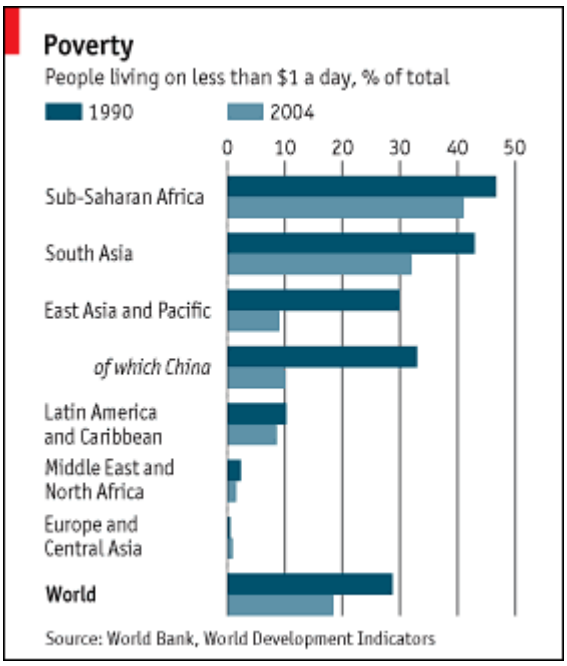
According to the World Bank, the number of people living on less than $1 a day fell in 2004 to 986m, or 18.4% of the population of developing countries. There were also fewer people on less than $2 a day, but still 2.6 billion, or almost half the developing world's population. The bank says that annual average growth of 3.9% in GDP per person since 2000 has helped cut poverty rates in all developing regions. The most striking reduction in extreme poverty has been in China, where 374m people (33% of the population) were on less than $1 a day in 1990. By 2004 the figure was 128m (9.9%). In sub-Saharan Africa the extreme poverty rate fell only from 46.7% to 41.1%—and the number of poor rose, from 240m to 298m.



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